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INDONESIA'S ECONOMY IN THE FINANCIAL YEAR APRIL 1954 TO MARCH 1955

By Dr. Sjafruddin Prawiranegara

(Governor, Bank Indonesia)

Due to the open character of our economy, our country is strongly dependent on international fluctuations. After the second world war it seemed for a while as if this relation existed only in a negative sense. For economic activity in industrialised countries expanded satisfactorily after the Korea boom. But prices of raw materials remained on a low level and the inelasticity of demand proved an obstacle to a compensative increase in the volume of trade, so that on balance export proceeds dropped. This seems contradictory to what could hitherto be observed in the past, namely that admittedly slumps lead to unfavourable prices and proceeds but on the other hand booms turn the scales. As I have pointed out before, it was then too early to draw the conclusion that the correlation in case of upward swings had been disrupted. For the large stocks piled up during the Korean crisis affected, as long as they remained on hand, the demand for and consequently the price of raw materials unfavourably. When my preceding annual report went to press, export market trends already indicated a budding improvement which further developed during 1954. Prices of various primary products, inter alia of rubber and tea which are of so great importance to Indonesia, went up. Exports to a so important market as the United States admittedly dwindled (from Rp 1,930 million in 1953 to Rp 1,636 million in 1954) owing to the there prevailing economic re-

cession, but during the second half of the year the low in business activity was reached and the pendulum began slowly to swing up again. The revival of American trade has set in too recently to be of any positive influence already on Indonesia or on any other primary producing countries' exports; West-European countries in particular showed sufficient resistance not only to neutralise but even to counteract the aftermath of the American recession. The expanding business cycles in Western Europe were an important factor in the scope of world economic activity, which was downright favourable during the period under review. To Indonesia the more favourable in that export markets were stimulated.

Or in other words, during the year under review Indonesia's economy was not exposed to such heavy pressure from unfavourable external influences as before. International business conditions positively developed impulses and stimuli. The increase in prices of Indonesian tea and rubber shares first afterwards followed by other securities, on the Amsterdam Stock Exchange was i.a. related to the recovery of export markets. There were other factors as well, as for instance a certain degree of satiation in domestic stock investment, but the influence of international business cycles on the prices of primary products undoubtedly contributed to the signalled phenomenon.

Naturally the higher level of world markets was to affect the development of our economy, in any case with regard to the balance of payments as also to the budget. The balance of payments could count on higher receipts, the budget, first via indirect later on also from direct taxes, likewise. Here too a time lag in fact exists which renders it at present impossible to definitely determine the effect of the external factors on Indonesia's economy.

In the year under review Indonesia's balances of trade and of payments were admittedly more favourable than in the preceding period. The acute foreign exchange shortage, reaching its nadir in April/May, could be checked. As at the end of April 1954, the Bank Indonesia's ready gold and foreign exchange position (inclusive of the Foreign Fund's holdings) came to Rp 1,549 billion; as at the end of March 1955 the comparable figure was Rp 2,731 billion. This improvement was not solely due to ampler export proceeds, it was also and even in the first place the result of the import restrictions which of necessity had to be introduced towards the middle of 1954 in order to spare the country's monetary reserves. Other imports were financed out of attracted foreign loans. The balance of payments, by the way, still showed a deficit, if a smaller one than in the previous year.

So far the budget cannot yet boast of increased receipts from indirect taxes or otherwise; on the contrary, Government revenue dropped.

(Rp million)	1953	1954
1st quarter	2,849.8	2,575.3
2nd quarter	4,812.0	2,631.1
3rd quarter	3,002.3	2,597.5
4th quarter	3,046.2	3,734.7
Total revenue	13,710.3	11,538.6

Given the fairly recent recovery of export markets, this development was expectable. Pending the pervasion of this recovery into budget receipts as well, expenditure had better been bridled. This however failed, as is illustrated by the following figures.

(Rp million)	1953	1954
1st quarter	4,221.9	3,413.4
2nd quarter	5,206.8	3,879.6
3rd quarter	2,810.7	3,895.8
4th quarter	3,711.1	3,951.8
Total Expenditures	15,950.6	15,140.6

Beside the budget deficit the banking system should be mentioned as a money creating source. The volume of money brought into circulation by the banks rose from Rp 2,394 million in 1953 to Rp 2,826 million in all, an increase which remained considerably below the budget deficit which in fact is to be regarded as the principal cause of the increased money supply in 1954.

In countries like Indonesia with imperfect price control and distribution apparatus, the effect of an expanded money supply is wellnigh instantaneously revealed by the level of prices. Rationing and price control were introduced in Indonesia to a certain extent, but it remains an open question whether they

were the very means to combat the consequences of inflation. So long as the Government administrative grip on the population is weak, direct control will have but little effect because of innumerable leakages. The aforementioned means would suit only an administration capable to handle them since their effect would otherwise be illusory, leading only to stagnation and disruption. The fact is also too often overlooked that such measures merely aim at combating symptoms, it is indirect methods, monetary and/or fiscal, which should in the first place be considered. The Government should as much as possible refrain from the introduction of measures in the commodity sphere which in spite of the best intentions have mostly an adverse result on account of the defective apparatus.

However that may be, the failing of rationing and price control shapes the price level into an indicator for the extent to which the monetary factors have or have not influenced the commodity sphere. In this respect allowance has to be made not only for the direct effect of budget deficits but also for the effect of the multiplier which value, I assume, will be high. Further, the velocity of money tends to accelerate—at least in the currency sphere as far as Indonesia is concerned—which is a wellknown phenomenon with a strongly increasing money supply. Opposite to the inclination to keep larger amounts of cash in hand when prices soar, stands the reluctance for keeping too much cash in hand since money tends to lose its attraction as a store of wealth.

When attempting to closer analyse the effect of the expanded money supply on prices, reservations should be made even though a minutely accurate statistical observation or interpretation is not necessary, if at all possible. In principle, imports are stimulated by a too widely expanded money supply, while exports are impeded (namely owing to increased cost prices and to local sales) and the cost of living moves upward. When tracing the monetary forces in these fields certain circumstances peculiar to Indonesia are to be taken into account.

To begin with there is the problem of the rise in the cost of living. Statistically, two spheres are to be distinguished, viz. the towns and the countryside. The family budgets in these two spheres differ; apart from rice, which plays an important role in both budgets, the urban sphere is more strongly dependent on import goods. Further, the urban sphere is not homogenous in so far as it falls apart into an Indonesian and a non-Indonesian part, the latter group outweighing the other as regards its dependence on import goods.

With respect to the development during the year under review, it must be considered fortunate that the available price index numbers for foodstuffs in the countryside were fairly stable. Price index numbers of rice did not deteriorate (1938 = 100, December 1953: 4,043, December 1954: 3,886). Other foodstuffs too, such as maize, coconut oil, salt, ground nuts etc., remained on the same level.

Meat and fish rose, but on the whole it can be stated that as far as foodstuffs are concerned, the cost of living index remained stationary.

This does not apply to the towns, where price index numbers of nineteen foodstuffs rose some hundreds of points (300 to 500) from the end-1953 level. Cost of living index numbers for civil servants and unskilled labour were also up (civil servant: January 1950 = 100, December 1953: 238, December 1954: 272.5; unskilled labour: July 1938 = 100, December 1953: 2,421, December 1954: 2,672). An explanation for this divergent development could be found in food-producing agriculture having stepped up in 1954. Where no commodity increase occurred or could occur, as was the case with import goods in the towns—as well as in the countryside, see elsewhere—prices soared, as did for instance in both spheres the retail price of textiles; as at the end of 1954 it exceeded in the villages of Djawa and Madura the 1953 figures by 33 to 50%.

As already stated before, expansion of the money supply tends to stimulate imports. But the introduction of a system of import licences—as a matter of fact one of the few workable means of direct control here—can keep the effective demand for foreign goods artificially low. Opposite to a higher domestic purchasing power, however, this must inevitably lead to an increase in the prices of import goods, which it did. The price rise was moreover stimulated by the otherwise comprehensible wish to ration out as well as possible the too small quantity. The Government tried to materialise this wish by making use of existing or newly created national distribution systems. The still underdeveloped national distribution apparatus and the small quantity of goods available caused the distribution of goods to go still more unsmooth with all its attendant consequences.

As to exports I can mention that at the beginning of the period under review Indonesia reacted favourably upon the improved world prices of raw materials. The divergence between internal and external price level narrowed, in other words, the so-called price scissors showed a favourable development during the last few months of 1953 and all through the first half of 1954. Little by little, however, the expanded money supply made its influence felt, the domestic price level rose at unequal pace with international quotations, as is for instance clearly illustrated by the rubber price development.

The increase of the internal price level naturally impedes exports which were already severely afflicted by a Government measure which admittedly was well-intentioned. Some exporters were namely given permission with a view to promote sales abroad to retain part of their foreign exchange receipts. This measure, which has meanwhile been revoked, had a threefold unfavourable effect, namely (1) the Government was deprived of a part of the foreign exchange receipts, (2) the officially allowed retention of foreign exchange enabled exporters to force up local prices in order to fulfil their commit-

ments while (3) they could underbid both their foreign and domestic competitors, thus unfavourably interfering with the rising trend of world prices. In other words, this policy resulted in internal as well as external price deterioration. Measures like these were not exactly promoting exports. They are a warning that each economic measure generates reactions, the strength of which should be discerned ere it is enforced; this is especially valid for an economy as internationally orientated as Indonesia's.

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The force exerted by the increasing budget deficits was, seen in the light of the foregoing, in the period under review in the first and strongest place perceptible in the sector of import goods, making itself also felt in the sector of exports as from the middle of 1954, while it hardly affected the countryside. In arriving at this conclusion, two facts should however be mentioned.

Firstly, a continued increase of the money supply will eventually involve the countryside, which at present still enjoys a relative peacefulness, in the price increases. Textiles in this respect hold a strategic position. The peasant sells his rice and other food crops not primarily to obtain money but to be able to buy the goods he needs, i.e. textiles (and cigarettes and kreteks). When these are expensive, the terms of trade between urban and rural sphere deteriorate to the detriment of the peasant. As a consequence, the latter will either increase his prices or hold back his produce, but in both cases a rise in prices will result.

Secondly, the distinction between industrial and financial circulation of money will fade away as the money supply increases. This would mean that goods lose their nature of exclusive trading object and become an investment object as well, which will still further push up prices. An increased velocity of money is attended with a slowing down of the goods velocity, meaning that the flow of both import and export commodities will slacken.

Thus, an expanding money supply on account of generated price increases in the interior, can deprive a country of the opportunity to benefit by an improvement in international trade cycles. All efforts should therefore be concentrated on tuning national business conditions to these improved world conditions, as these will result in ampler foreign exchange receipts and budget revenues, so that both the external and the internal monetary equilibrium can partly be restored.

At the present moment the increase in the money supply is out of all proportion if compared with the quantity of goods becoming available, even though the production of food and export crops could be stepped up. Replenishment of import goods is urgently necessary, but the foreign exchange position's improvement is still inadequate. From 1952 to 1953 the money supply in Indonesia increased by 13% mainly as a result of budget deficits. From 1953 to 1954 it increased by no less than 46% whereas

the ratio between money supply and ready foreign exchange position, though in absolute sense improved during 1954, remained at about 24%. It is feared that according to exports stagnate owing to disparity between internal and external price level, the foreign exchange position will be unfavourably influenced. I may even forecast that, should the budget deficits sustain, the phenomenon of demand pulls and cost pushes will to an increasing extent be rife.

Our attention should therefore of necessity be focussed on the restoration of the internal equilibrium. This means that top rank priority should be given to the question of eliminating the budget deficit.

The Problem of Balancing the Budget

The tendency towards instability in the budgets of underdeveloped countries can be traced to two causes.

First of all, there are the short term price fluctuations in export markets, which affect both the balance of payments and treasury revenue. In this respect it need not be expected that expenditure will be instantaneously adaptable to revenue. Disequilibria occur which, due to the absence of a capital market, cannot easily be corrected by the issue of loans. Carrying over cash surpluses from boom years with accumulation of foreign monetary reserves, seem to be the best means for overcoming these difficulties. Monetarily, these measures complement each other. By spending surpluses in local currency, a Government appeal to money creating institutions is avoided. The employment of monetary reserves exerts a deflationary force. When sufficient local and foreign currency reserves are lacking, the budget deficit will pave the way to inflation, since production will fall out of step with money creation. The acceptance, if only temporarily, of a budget deficit as the inevitable consequence of decreasing world prices, should invoke keen and constant watchfulness over the volume of expenditure. If it should not be possible to keep expenditures within the level of revenues, it must still be feasible to weigh their purpose carefully, and to check in time any development inconsistent with decreased revenue. The introduction of efficiency and retrenchments wherever possible is an imperative necessity. It must surely be possible to take additional measures which could exert a favourable influence on production, or eliminate existing obstacles.

Without aiming at the impossible, Government outlays this year must be handled with utmost care, along the lines indicated above. Admitting that it will be difficult to balance the budget in the short run, it must be possible to limit the budget in such a way as will be least burdensome to economic development. As a monetary target, it could be established that the deficit should not exceed the Government planned imports. In the private sector, imports could be discreetly raised again, to provide

an adequate supply of goods on the one hand and to exercise a deflationary effect on the other. Other deflationary forces should be looked for as well. Only then will Indonesia reap the positive fruits of favourable world business cycles, and only thus will it be able to put its own economic development on the right track.

The second cause of the unstable character of underdeveloped countries' budgets is related to the problem of economic development. In international circles a new expression has cropped up, which typifies perfectly the situation in the underdeveloped countries, viz. "revolution of rising expectations". The freedom which came to many of these countries after the second world war, evoked in these peoples the desire for greater prosperity. This new freedom also puts them in a position to contact parts of the world with higher standards of living; the so-called "demonstration effect" began to work on a large scale. New desires are born, new wants are felt, as a mightily incoming tide a potential demand for goods in the widest sense of the world manifests itself. But for the present a wide gulf still separates these rising expectations from their fulfilment. For the countries where these expectations came to life are underdeveloped, i.e. the effective supply is too small to meet the swelling demand. Tensions arise which can be reduced to the underlying wish to meet the growing wants at the quickest possible rate. This can only be contrived by a rapid development of a country's potential sources of wealth. In other words, investments are required. However, since the national income is low, savings are small and inadequate for rapidly expanding the production. In so far as the need for investments leads to foreign currency spending, a constant pressure on the balance of payments will result; in so far as local currency is at stake, the budget expenditures will be pushed up to an ever increasing height.

This is the fundamental problem with which all underdeveloped countries have to cope. Short term fluctuations of export prices will time and again unbalance both the balance of payments and the budget, while on the other hand the long term growth of wants repeatedly pushes up the level of external and internal spending.

Both factors necessitate a careful watch on developments, if only to make sure that the established objective, growth of the economic system, will not be nipped in the bud by inflationary forces for the sake of meeting the increasing wants. Great self-discipline is required to refrain from over-ambitious, spectacular investments. Labour-intensive projects, which require relatively less capital investment—and therefore less outlays—yet promise to yield quick results, will in general prove the most profitable investments. Setting up consumer goods industries, and other import reducing undertakings, suggests itself as a good starting point.

* * * *

Over and above this I would bring out a factor which could perhaps offer relief. I should like to

make a plea in favour of greater financial autonomy for the lower public bodies. Up to now the daerahs (autonomous territories) are for their budgeting wellnigh entirely dependent on the Central Government. The financing of expenditures which are deemed necessary by these autonomous regions is chiefly effected out of Government subsidies. And it is the Central Government which, for that purpose, sees to the collection of revenue from taxes, even in the local sphere. The Minister of Home Affairs has been advised by a committee appointed especially for that purpose, to leave the collection of certain specified taxes to the autonomous territories. This would be one step in the direction of the greater financial autonomy which I advocate. A system of subsidies such as exists at present is apt to undermine the sense of responsibility, and to kill all local initiative and ingenuity. According to data supplied by the Ministry of Home Affairs, the de facto outlays on behalf of daerahs amounted in 1954 to Rp 2,733 million. These expenses were covered from:

own resources	Rp	378 million
receipts from Central Government	"	2,355 million
	Rp	2,733 million

The ratio between own resources and Central Government subsidies should actually be the reverse.

Daerahs can be divided into active and less active ones. The active ones feel themselves suppressed by their subordination to the Central Government; the less active ones, not being confronted with responsibilities, are never stirred out of their lethargy. In principle only those daerahs which are by nature poor in resources should be eligible for large scale subsidies.

Greater financial independence will stimulate the autonomous territories into higher activity and a greater display of energy. If the responsibility for certain revenue is left to local authorities instead of to the Central Government, receipts would presumably be far more substantial, first because local authorities have a better knowledge of local conditions, second because the region's own interest is at stake. Moreover, the Central Government will thus be relieved of a heavy administrative burden. Several expenses now incurred in this respect could either be reduced or dispensed with entirely. A large number of civil servants can and should be transferred to the daerahs, a move which would also involve direct retrenchments for the Central Government. Against the higher expenses of daerahs, a higher yield from taxes can be expected.

Financial autonomy would compel the various territories to face reality. Over-ambitious plans and projects will immediately confront them with the problem of finding the means to finance them. In contrast to the past, they would have to solve this problem themselves. The feeling of being suppressed by a Central Government unwilling or unable to furnish the means for financing certain projects would be gone. In short, if the daerahs themselves

are responsible, they will soon enough develop an appreciation of what is desirable and/or what is possible. And this will favourably affect the expenditure side of the budget.

But granting financial autonomy has more consequences than those discussed above. Once local independence has become definite, the respective region will wish to and will have to exercise it. In future, both expenditures and receipts will have to be determined and handled by themselves. There is reason to hope that local perception will improve.

There are other advantages. Nowadays everybody has become so familiar with thinking in terms of money that in Indonesia one often loses sight of reality. If for the sake of economic development investments are desired, first of all the money required to buy goods is sought. This approach presupposes an economic structure in which everything is expressed in terms of money. But this assumption is not wholly applicable to Indonesia. We must distinguish between a monetised and a non-monetised sphere; the monetised sphere thinks and calculates in terms of money. In the other sphere money has only a supplemental function, while exchange is for the greater part effected in terms of goods and services. This latter sphere is larger than is generally presumed. In the Indonesian villages and countryside a situation has been preserved in which money as a medium of exchange is of little or no importance. It is not the volume of money one possesses that counts as a standard for wealth but the goods at one's disposal: houses, grounds, crops, live-stock, etc.

Investments have to be made out of accumulated savings. Should such savings be sought in the form of money, in an economic sector which has savings available only in the form of goods and services, there will, in terms of money, always be a deficiency in financial resources. But what does reality show? In many of the regions which offer no possibility for money investment, mosques and schools are built, roads and bridges constructed or repaired, etc. Based on the gotong rojong system (i.e. mutual aid), a social institution typical of the Indonesian village and countryside, savings in kind—wood, bricks, sand together with the available implements and manpower—are utilised to undertake investments. This kind of Indonesian economic reality is familiar to the daerahs; they know its limitations and they know its possibilities. Once they are thrown on their own resources by financial autonomy, they will have no need to draw exclusively upon money means but will have also at their disposal "real" capital resources: goods and services. Insufficient means of finance could in principle be offset by a system, still to be outlined, of savings in kind, based on customs still rife in the interior. Thus sources which from a social-economic viewpoint have hardly been tapped, can be resorted to for the promotion of economic development and prosperity. In this way the whole community, the monetised and the non-monetised part together, can partake in the process of economic growth which is

necessary for raising the standard of living. It should be left to the activity of local authorities to mobilise the economic potential of Indonesia in the non-monetised sphere.

By focussing attention on money, the outlook for possible means of construction and development becomes blurred. Local autonomy will help to tap better resources, since the daerahs can then fall back on the money as well as on the goods and services sphere. The activation of daerahs through greater financial independence will in my view considerably relieve the budget burden for the Central Government. It is a wiser policy to step up investment capacity in the direction indicated above than to try, as is sometimes suggested, to drain the countryside and villages of their money means which, as a matter of fact, are often not abundantly available.

Financial autonomy can facilitate economy, efficiency, determination of correct investment priorities, an understanding of the severe consequences of a heavily overdrawn budget, and improved budgetary control—all traditional means of achieving budgetary equilibrium. In my view it will also contribute substantially to limitation of the amplitude of budget fluctuations.

* * * *

Though control over financial and monetary forces is significant, the fact should be kept in mind that it is production that counts in the long run. To attain monetary equilibrium alone is no end in itself; it should be accompanied by achieving a level of activity on which productive forces can be fully employed and developed. Restoration of monetary equilibrium is required for this development to be feasible and unhampered. At present, the monetary situation, unbalanced by a large budget deficit, hampers production capacity. Removal or modification of the monetary disequilibrium and the restoration of internal stability, will favour production and external stability. This does not imply that all sectors of production have already been unfavourably influenced by the monetary situation. For food-producing agriculture—which belongs principally to the non-monetised part of Indonesia—and for the time being, despite inflation, mining (oil) and export agriculture as well have been able to step up production, while other sectors still lag behind. An increase in labour productivity is necessary, since prosperity and wealth—the fulfilment of rising expectations—are only feasible by a grim will to keep toiling. It is therefore to be regretted that industrial development, despite the favourable factors, was checked by the difficulties encountered in the importation of the necessary raw materials and capital goods. Manufacturing industry especially might otherwise have been able to meet the demand for various consumer goods and even for basic materials and capital goods. Among the aforementioned favourable factors may be ranked the fact that the imposed import restrictions for

U.K. ATTITUDE TO MONOPOLIES AND RESTRICTIVE PRACTICES

By John Kingsley

Price rings, private courts and boycotting of cut-price traders are much in the news in Britain just now. On July 13 the President of Board of Trade, Mr. Peter Thorneycroft announced the Government's new proposals on monopolies and restrictive practices. Broadly, the proposal is for the Board of Trade to have the power so specify certain restrictive practices and make it obligatory for persons operating such practices to register them. After registration they may be considered by a specially appointed tribunal.

To date, the United Kingdom attitude towards all these matters has been based upon the belief that these things are not necessarily harmful in themselves but must be examined in the light of their effects on the interests of the public. As Mr. Thorneycroft put it:

"In this matter, as in many other matters which we have tackled, we have preferred an objective and empirical approach. We do not assume that trade combination is necessarily evil. What we say is that we want to have a very good look at it. We want to see what it is doing, how it is doing it and what are the practices that have been carried on and to examine whether they are in fact against the public interest or not."

The first move towards legislation in the United Kingdom was a statement in a White Paper on employment

the time being bar foreign competition. Another factor is the availability of foreign loans.

The achievement of monetary and economic equilibrium supposes action in the sphere of money as well as in the sphere of goods, with the monetary equilibrium to be realised at as high a production level as possible.

External factors, so prominent in the development of our country's economy, were favourable during the year under review. The effect of those external factors, international business cycles with now relatively attractive export markets, was impeded by internal factors, such as the extensive budget deficit, generating inflationary forces which interfered with the exportation of our produce, and still lagging production, especially in the industrial sector.

International developments still continue their favourable trend while the fear for a recession in the United States has disappeared. In large parts of the world prosperity prevails, offering a favourable climate for the development of underdeveloped countries. It is now entirely up to Indonesia itself to share the prosperity other countries enjoy, by removing in the first place the obstacles of a too widely expanded money supply and a too intricate system of regulations; the stepping up of production will then automatically contribute to the harmonious development of our economy.

policy, issued by the Coalition Government in 1944, that the Government would inform themselves of the extent and effect of restrictive arrangements and take appropriate action to check practices which brought advantages to sectional interests but were to the detriment of the country as a whole. In 1948 the Act was passed "to provide for the investigation of monopolies and restrictive practices in industry and trade and to give Government special powers for dealing with those found to be working against the public interest."

The Monopolies and Restrictive Practices Commission, set up in 1949 after the passing of the 1948 Act, has therefore spent much time in sifting evidence in various industries, ranging from dental goods to buildings and imported timber to insulin, referred to them by the Government.

Eleven reports have been rendered to date on individual industries, of which nine have been published with action subsequently being taken by the Government in all cases. The other two will be published shortly. In addition, the Commission has ten other subjects on hand.

The Monopolies Commission has been criticised from time to time for moving too slowly but the duration of inquiries is dictated by the need for thorough investigation. The Government has however increased the size of the Commission so that it can deal with more subjects simultaneously.

In addition to their investigations into the arrangements of particular industries, the Commission may be required to examine defined class of practices. It recently completed one such inquiry and is soon to commence a second—on common proxies and level tendering. The subject of the first inquiry was the general effect on public interest of exclusive dealing, collective boycotts and aggregated quantity rebates and the Commission's findings were published in the report called "Collective Discrimination."

The Commission concluded, by a majority of seven to three (six to four in the case of the collective enforcement of resale price maintenance) that these practices affect the public interest adversely and should generally be prohibited, though allowing for possible exemption of exceptional cases. A minority do not regard the practices as generally injurious; while they do not object to compulsory registration and publication of such restrictive agreements they think that the practices should be prohibited only if they are found after individual investigation to be against the public interest.

It was as a result of this report that the Government produced proposals outlined at the beginning of this article.

In the House of Commons on July 13 Mr. Thorneycroft said: "We intend to take power by Act of Parliament to require the registration of those restrictive practices which we shall from time to time specify. On the one hand we shall not limit ourselves to those referred to in the report, nor on the other hand shall we require all restrictive practices to be registered together as appears to be envisaged in an amendment by the Party opposite because all would be drowned in a sea of paper. We shall select the ones we want and in the order we want."

THE STORY OF FORMOSA

By Professor Arundel Del Re, O.B.E., M.A. (Oxon.), Litt.D.,

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Vague accounts of a "barbarous continent" in the South China seas, inhabited by head hunters and cannibals, were in circulation among Chinese and Japanese pirates and merchantmen as early as the third century A.D. Chinese records for the year 230 mention a military expedition sent by the King Wu in search of it. The hostile attitude of its barbarous inhabitants who spoke an unknown language decided the leader to sail back immediately to China. Although the Chinese occupied the Pescadores some three centuries later, they had no direct acquaintance with the island until the eunuch Cheng Hwo, returning from the West, was cast ashore there by a storm and made use of his stay to collect a few plants and medicinal herbs, which he took back with him, and which, according to Father de Mailla, who visited the island in 1715, are used freely in China to this day with success.

The first actually to own Formosa—"The Island Beautiful"—were the Dutch, who occupied the island in 1624 after being obliged by the Chinese to abandon the Pescadores Islands, from where they had planned to trade with China and procure goods to take over to Japan that they might thus freeze the Portuguese out of it. The Dutch East India Company established a factory on a small island or long sandbank, called Tayouan, lying about three miles off the South West coast of Formosa, which became their headquarters. Here they erected Castle Zeelandia, the residence of the Governor-General of Formosa. On the sandy plain north of the fort, many natives, Chinese and Dutchmen settled down to carry on trade, and soon formed a settlement which came to be known as the "Town of Zeelandia." The following year the Governor bought some land on Formosa "in order to have some decided right and possession" on the island itself, where he built Fort Provinita. This latter became the site of Taiwanfu (present-day Tainan), the first capital of Formosa.

Perhaps the most remarkable feature of this brief significant period of Formosan history is the great educational work done by Georges Candidius, who discovered the great lake in the centre of the island, named Lake Candidius after him. Daniel Gravius, Robert Junius, and other scholarly missionaries collected invaluable material concerning the customs, religious beliefs and traditions of a number of tribes, as well as of the island itself, and compiled glossaries, conversational manuals and catechisms in Formosan and Dutch. A number of schools were opened for the benefit of those natives who wished to learn about Christianity as well as to read and write with the characters of the "red hairs" (the Dutch). Even 150 years after the Dutch had left Formosa, native amanuenses continued to prepare legal documents in romanised script in spite of the strict orders forbidding its use, issued by the Chinese. In view of the present scholarship system, permitting Asians to study abroad, it may be of interest to note here that Dr. Junius proposed to the Dutch Government that a selected number of promising young natives should be sent to school and the university in Holland, where they would "inhale the very air of our country, adopt our manners and customs and, in short, become Dutch in every respect" and so be qualified, upon their return, to teach, convert and civilise their fellow tribesmen.

The plan never materialised, but it affords evidence of the Dutch aboriginal policy which is in striking contrast with that later pursued by the Chinese in Formosa.

At this time, and practically until the Japanese occupation, except for a small strip at the South Western end of Formosa, the mountainous central region stretching down to the precipitous east coast from north to south was the home of savage tribes and sub-tribes who had settled in the island at different times, forming linguistically an Austronesian group and belonging racially to different strata of Indonesian peoples with different levels of culture. By 1620 a small colony of Japanese traders and their families settled on the north coast. Previous to that 10,000 Chinese from South China were joined in 1644 by over 25,000 Chinese refugees and supporters of the Ming dynasty after the fall of Peking to the Mongol invaders. Formosa and the Pescadores now became the centre of the anti-Mongol resistance movement, from where a campaign was carried on by sea and land for over ten years against the usurpers, under the leadership of Koxinga—the son of a Japanese mother and Chen Chih-Lung, a great merchant pirate. After forcing the Dutch to abandon Formosa in 1662, Koxinga proclaimed himself King of Taiwan and set up a dynasty of his own, refusing to acknowledge the suzerainty of the Ching (Mongol) emperors. Koxinga's military exploits have since become legendary and he has long been regarded as the hero of Taiwan (Formosan) independence, as witnessed by the number of temples raised in his honour.

The Japanese and the Spaniards had for a brief period established a foothold in the North, the latter, however, were forced by the Dutch to leave the island (1629), while many of the former were obliged to return to Japan because of the edict forbidding all Japanese subjects to leave their country under pain of death. An English "factory"—under the factory at Bantam—was established by the East India Company at Tainan (Tywan) in 1673 by agreement with Koxinga's son, who appears at first to have been willing to allow the company to trade in the island. Indeed, according to the advices forwarded from Bantam to London (1675), there seemed to be "some probability of having all or part of Formosa made over to the East India Company by deed of gift from the King Tywan". In reply to which the Court of Directors observed that such a proposal would require careful consideration and further information. The Court, however, would be disposed "to embrace the offer if overtures were made by the King, consonant to the honour, safety and advantage of the company." These, however, were not forthcoming, and in 1684 the East India Company finally closed down the factory.

In 1683 the Ching (Manchu) Government sent over a punitive expedition to Formosa and, after defeating the rebel army, occupied the island, which was incorporated into the province of Fukien and exploiting rather than governed by incompetent and rapacious mandarins interested only in squeezing taxes out of the Chinese and, where possible, those natives who had become detribalised and intermarried with the Chinese. Formosa was not recognised as part of China until 1886, when, by Imperial decree, it was made a province

of the Empire with a governor of its own and an independent administration. Previous to this, as a result of the Opium War and the Treaty of Tientsin (1856-60), the Chinese were forced to open the ports of Tamsui (in the North) and Anping (in the South) to foreign shipping and, a few years later, that of Keelung (North) and Takao (South). Foreign powers established consulates in the island, Great Britain, however, being the only one that, as early as 1860, had two resident Consuls, one in Tamsui with offices in the old Dutch fort and one in Anping, transferred later to Tainan. An agreement was also signed between the Formosan authorities and the British firms of Dent, and Jardine Matheson authorising them to buy and export camphor. One other interesting point: following upon the massacre of the shipwrecked crew of a Japanese vessel by the savages (1871), Japan demanded an inquiry of Peking and when ignored by the Chinese, challenged the Chinese claim to absolute sovereignty over the island since they manifestly exercised no control over the tribes of the Central and East coast. In 1895 the Sino-Japanese war ended with the Treaty of Shimonoseki and the cession of Formosa to Japan. Perhaps this explains Li Hung Chang's later statement to the American Minister that China had never owned the island.

Be that as it may, it seems doubtful whether the original Chinese immigrants and refugees in Formosa regarded themselves as Chinese or China as their homeland now dominated by an alien race, but rather as the "People of Taiwan", with a history, traditions, religious beliefs, closely related to yet different from those in China, who spoke another language—the dialect of Amoy, Canton or Foochow. When the Nationalists took over the island after the recent war the Formosans were forced to learn Pekingese, the official national language of the Chinese Republic, just as previously they had been obliged to learn Japanese—which meant, in practice, going back to school again—and was bitterly resented. During the Japanese occupation Classical Chinese was taught at Taihoku Imperial University and, after the '30's colloquial Chinese, but only an elective subject.

If the island had continued to remain under Japan (just before the war it became part of the Empire—not just a colonial territory), it is quite probable that it would

eventually have been granted home rule or something similar, for matters were moving in that direction. While there was no evidence of "Chinese irredentism", there was a fairly active underground Formosan Nationalist or Liberation movement against the Japanese. Even during the "China Incident" (1932 onwards), the Formosans did not appear to show much interest in the fate of China. If some secretly rejoiced over reports smuggled in of Japanese defeats, this was due to their dislike and, in some cases, hatred of the Japanese and not out of love for the Chinese. Paradoxically, the war and the present Chinese occupation would appear to have made the Formosans realise the many advantages of the Japanese regime and compare it favourably with that of the mainland Chinese, who, I repeat are looked upon as almost as foreign intruders, and resented accordingly. As in the case of the Manchus in the 17th century, present-day Communists regard the Chiang refugees as rebels, while the Chiang party, like the Ming refugees of the 17th century, would like to see the overthrow of the Communist usurpers. The Formosans proper, however, consider the island as belonging to them and desire to be masters in their own house. I would like to add, however, that it seems extremely improbable the Formosans would be willing or inclined at the present time to risk openly demanding an independent Formosa, much less to take active measures to secure it unless, indeed, instigated to do so and assured of support as well as protection.

According to Francois Valentyn's authoritative account of the island in his voluminous work in the Old and New West Indies (1724), the native name for it was Pak-an or Pak-ande. The Chinese believing it to form part of the Luchu archipelago referred to it as Tai-Liu-khiu (Great Luchu), while the Japanese called it Takasago. In Dutch maps after 1590 it appears as Het Eyland Formosa, a literal translation of the Portuguese Ilha Formosa, which, though adopted by Western cartographers, was never recognised by the Chinese or the Japanese. It was not until the expulsion of the Dutch that the island as a whole was called Taiwan. It should be added that the Japanese ethnologists now apply the adjective "Formosan" solely to the savages, and refer to the Formosans as "Taiwanjin" (Taiwan-men) or "Hontojin" (inhabitants of the main island).

MACAO—HONGKONG RICE SMUGGLING

A remarkable and instructive socio-economic phenomenon of the year 1954 was the huge development taken by the "Rice Smuggling Industry," and yet too little noted by the European community. Probably few persons are aware of the fact that smuggling accounted for between one third and one half of legal imports, and came to constitute one of the largest industries in that year.

Early Period

The start of Rice Smuggling on a large scale was revealed suddenly to the public when one Chan Sum appeared early in March, before Mr. T. Crendon at the Kowloon Court, and was charged with importing rice without a licence from the Department of Commerce and Industry. The quantity of rice smuggled was 146 bags, valued at \$14,000. A fine of \$500 was imposed; but Crown Counsel in the case called attention to the seriousness of the situation; he stated that: "From 3,000 to 5,000 tons of rice are smuggled into the Colony every month, by people who are willing to jeopardise the whole economic system of the Colony for personal gain." Crown Counsel asked the Magistrate to use the strongest deterrent in dealing with those smugglers. If the severest punishment were not employed, the smugglers would continue this form of trade; he asked for confiscation of the rice, and concluded with the significant remark that: "If defendant were allowed to keep the rice, it would mean that the Court had granted him a rice importing licence, which the Court had no power to do." The point here, though it was not stated in Court, is that the difference in the price of rice in and outside the Colony was such that smuggled rice would bring profits at the rate of some \$330 a ton, and a cargo of 146 bags (14.6 tons) a profit of over \$4,500; compared with this profit, a fine of \$500 would clearly have little effect as a deterrent.

Genesis

As in similar situation, smuggling was caused by the anomalous difference in the price of rice in and outside the Colony; this difference, which amounted to some \$20 to \$24 a picul (well over £20 a ton) was the result of the so-called Rice Monopoly enforced by the Department of Commerce and Industry. With some minor variations during last year rice was imported in part by the Department's Supplies Division, and in part by a group of "well established rice-importers", who had the monopoly of commercial imports. In the latter part of the year, from May to December, these importers were allocated a quota amounting to about 5,000 tons a month.

The great profits from rice imports, due to the wide price differential, led a number of malefactors to enter the illegal trade; in this they were eminently successful, as the amounts of rice smuggled have been large and seizures have been few; as a consequence, there is little doubt that profits have been very large.

Amounts of Rice Smuggled

These amounts can be estimated in three different ways: (1) From the official statement quoted above, that in March, smuggling was at the rate of 3,000-5,000 tons a month. (2) From the quantities known to be necessary

for consumption, both from estimated individual consumption, and also from actual retained imports in immediately preceding years, when smuggling was known to be non-existent. Other sources of rice coming on the market were known to the Supplies Division and included: local production, commercial imports, Government imports, and rice from liquidation of the stockpile.

Computation from (1) was a wide approximation and could not be used for the later months of the year; and some elements in (2) were not known by the public and in particular the movements of the stockpile which were kept secret. (3) Fortunately a third source of information became available at the end of the year, with the official statistics regarding the movements in the Macau Harbour. Quantities of rice landed in Macao during the year 1954 were as follows:

Jan.	1,686 tons	July	1,730 tons
Feb.	6,520 "	Aug.	2,284 "
Mar.	16,824 "	Sept.	4,063 "
Apr.	4,858 "	Oct.	1,982 "
May	700 "	Nov.	2,843 "
June	300 "	Dec.	6,597 "

Total: 50,387 tons.

These figures allow us to know with some accuracy the amount of rice smuggled into Hongkong. Macao stomachs have a limited capacity; and consumption there is estimated at 12,000 tons. There is therefore a surplus of 38,000 tons. Where did it go? Certainly not to Mainland China, as that country was desperately trying to sell or to resell rice at \$41 a picul, while it sold in Hongkong for well over \$60. Indeed some imports into the Portuguese Colony came from the Mainland. There cannot be the slightest doubt that this surplus rice came to Hongkong. And while 38,000 tons was a minimum, it need not have been a maximum, as some rice may have been imported illegally from the Mainland as well, both into Macao, and into Hongkong.

What meaning do these figures carry to the reader? What are 38,000 tons in terms of total imports of rice for the year 1954? Authorised and recorded imports (other than smuggling) were 98,000 tons, including both commercial and Government transactions. This makes imports through smuggling at between one third and one half of legal imports.

Physical Set-up

How many junks were needed to bring over the rice from Macao? The capacity of junks used by smugglers increased during the course of the year, as their experience and organisation improved. At first sailing junks of 15 tons were used, and this probably well into the summer. Towards the end of the year, smugglers had come to use motorized junks with a capacity of 60-80 tons. As steamers loaded with contraband rice could not conveniently come direct to Hongkong, an alternative sea port was found in Macao. Ocean going ships were unloaded there, and the cargo was either stored in godowns on shore, or was put on junks to carry it immediately to this Colony. Junks were generally scheduled to arrive off Castle Peak Road at dusk, where the rice was taken care of.

If the junks used by smugglers were of a capacity averaging 30 tons to 40 tons (300 to 400 bags), the total of 380,000 bags must have needed over 1,000 junks. This means a continuous stream or procession of junks entering the harbour, at the rate of 3 to 4 a day from January to December.

Value of the illegal trade, and profits of smugglers

The price of rice in Hongkong during most of the year 1954 was in the neighbourhood of \$1,000 a ton. This was in fact the valuation put on smuggled rice, on those rare occasions when seizures were effected, and it was noted both in March, and also in December. This makes the total turnover of the rice smuggling industry in 1954 at \$38,000,000, and this in turn makes rice smuggling one of the major industries in the Colony for that year.

Profits of smugglers accrued from the great price differential prevailing inside and outside the Colony and which amounted to \$20 to \$24 per picul, as stated above, or well over £20 a ton. The aggregate gross profits of smugglers were of the order of \$12,000,000 to \$15,000,000 for the year. The smuggler's profits were paid by the public and the public lost in two ways: first because the so-called Rice Monopoly made them pay at least \$20 a picul above the normal price; and they lost a second time, because Hongkong's preventive service was unable to enforce the ban on imports of rice. The money the public was paying in excess, failed to reach the Government treasury as was presumably intended, but found its way instead into the pockets of various parasites, chisellers and the smugglers at large.

Organisation of Smuggling

The first consideration is the amount of cargo involved. As seen above, this cannot have been less than 380,000 bags for the year, and this figure is not in dispute.

The second consideration is that rice is a bulky cargo, which cannot be hidden like gold bars or opium. It is obvious to the meanest intellect that the daily unloading of 1,000 bags, day after day and month after month throughout the year, could not go unnoticed, and it was certainly well known to every waterside character not only on the Kowloon waterfront, but especially in Macao. On the commercial side this illegal rice, coming in at the rate of 1,000 bags a day, was a well known factor in the rice trade, and was accepted as a regular feature by wholesalers and retailers alike. The arrival in Macao, of a ship loaded with rice, far in excess of the needs of the population was known well in advance in all shipping circles. It would have been perfectly easy to post a few observers in Macao in advance of the arrival of the ship and from there to notify Hongkong of the respective numbers or name of the junks into which the rice was being transhipped, so as to be ready for them in Hongkong at sunset.

In spite of this steady stream of junks entering illicitly Hongkong harbour, and the apparent ease of their capture, the fact remains that the number of seizures was very small. It does not seem that more than a dozen seizures were made in the twelve months, and those include aberrant cases such as a man bringing 14 bags for the use of his farm, and also rice being imported illegally from Australia, of all places!

The conclusion is inescapable that rice smuggling through Macao was a business organised on a large scale,

an organisation made possible by the large turnover and the high rate of profits.

The impunity of rice smugglers was explained in an article published by the Far Eastern Economic Review last year (Sept. 23): "There was however less daring and more connivance and bribery; one bag's smuggling into Hongkong cost earlier this year HK\$8". While this fact and this figure could not in the nature of things, be actually proved, short of an official enquiry, no other reasonable explanation offers that can account for the facts. Here again we may marvel at the magnitude of the sums involved, as \$8 per bag on 380,000 bags means over \$3,000,000 in bribes and similar payments alone for the whole year or \$250,000 a month.

Course of Smuggling Campaign

Rice Smuggling went on throughout the year and seems, as was to be expected, to have become more industrialised towards the end of the year. As late as June 4 (case of Lam Kuen) smuggling was still by means of smaller junks of 140 bags capacity, the fine was \$1,000 and the rice was forfeited.

By November, two important changes supervened. While no seizures seem to have been reported by the Hongkong preventive service, there were no less than three seizures by naval launches of H.M. ships under Royal naval officers. These were the cases of Tai Sang (Nov. 12), Lo Wah Kan (Dec. 5) and Chan Kwok (Dec. 12). All three cases had similar features: the amount of rice carried was very large; 627 bags, 450 bags, and 665 bags, respectively; the vessels used were motorized junks; they were stopped for failure to carry navigational light. The Royal naval officers and crews, who had acted with the utmost vigilance, were duly commended by the magistrates.

The other new feature was the change in the attitude of the Courts; while fines of \$1,000 (Lo Wan Kan) and \$2,000 (Tai Sang and Chan Kwok) were imposed, the rice was not confiscated, but was returned to the smugglers.

Conclusion

The disastrous policy of the local Rice Control and Rice Monopoly has been very often attacked in the press. Its ruinous consequences are good illustrations of what happens when violence is done to economic law. The Rice Monopoly, not only cost the public \$100,000,000 last year, but caused economic maladjustments and mala dies.

The description given in this article has been factual and numerical, and comment has been with the utmost moderation and restraint. If we can be allowed a final paragraph, we would like to point out that there is a moral side to this sad adventure; a community cannot allow the existence of an organisation as described above, without sustaining serious moral damage. While the Hongkong community seems to be intensely preoccupied with moral values, there is a suspicion that its view of morality is conventional, provincial and Victorian; it seems most concerned with the formal observance of the Sabbath or the chasing of "Sin" along the streets of the city, than with other and more essential articles of the Decalogue.

— Critic

BACKGROUND TO THE CONSTITUTIONAL CRISIS IN SINGAPORE

July was a month of intense political activity culminating in the threat of resignation by the Chief Minister and the non-official members of the Council of Ministers. The carrying out of the threat was postponed till the arrival of the Secretary of State for the Colonies, Mr. A. T. Lennox-Boyd in August. Then, fortunately, the crisis was dissolved with the British Government accommodating the Singapore Government.

The crisis developed from a proposal by the Chief Minister on July 4th four days after the arrival of the new Governor, that four more Assistant Ministers should be appointed. There is already an Assistant Minister in the Chief Minister's Ministry of Commerce and Industry, and it was proposed to add them to the other ministries held by unofficials except for that of Communications and Works. The story is best told in the exchange of correspondence between the Governor and the Chief Minister. The Governor in a letter on July 9th, did not accept the Chief Minister's suggestion to the full. He pointed to the high proportion of Ministers and Assistant Ministers to the total strength of the Assembly of 32 and to the danger of criticism of "providing additional places for supporters" which might seriously jeopardise the good name of Government. He saw no addition to the strength of the Ministries by the addition of Assemblymen without administrative experience. However, because of the heavy commitments of the Ministries of Labour and Welfare, and of Local Government, Land and Housing, he agreed to the appointment of two Assistant Ministers, one to each of them.

The Chief Minister replied on July 12th. He argued that the radical changes to which his Government was committed to the electorate were only possible to bring about "through the effective direction by the people's representatives of the actions of the Civil Servants." The issue, he contended went "far beyond the immediate question of the merits of my advice, as it goes to the root of the question as to whom under the Rendel Constitution, is governing this country—the Governor or the Ministers". Whether or not it was intended to be such, the Rendel Constitution could become "an instrument of self-government. . . ." "within its legal framework on the basis of the principle that Your Excellency as Governor of this Island has a very special position as counsellor to the Ministers with undisputed powers of objecting, arguing, persuading and guiding; the ultimate decision must be that of your Ministers, and a rejection of advice from them or from your Chief Minister is an intimation of lack of confidence which must attract a formal resignation."

He said that the Ministers had from the start accepted their responsibilities. When "the easy way out" was suggested to them that, in view of their election promises to repeal the Emergency Regulations the Governor should impose them under his special powers, "we then indicated that the government of the country was our responsibility, and we were prepared to accept the responsibility of imposing and enforcing unpopular laws where such were necessary and that we refused to hide behind the skirts of officials, as the exercises of reserve powers at any time must necessarily bring about our resignation." He clearly pointed the issue as he saw it. "I, as Chief Minister, responsible

to the people of Singapore cannot take orders either from Your Excellency or from the Colonial Office. Singapore must be governed from Singapore and by Singapore. Your Ministers and the Coalition Government intend that the Rendel Constitution should give effective government by the people, as of now. There can be no dual control, either you govern or we do, and so long as we are Ministers we intend to govern, giving full and respectful consideration to Your Excellency's advice. Naturally we fully accept the position that Your Excellency may dismiss us whenever you deem fit, in your absolute discretion." He concluded that while it might seem unfortunate that a constitutional issue should arise so early on a matter the Governor might think of minor importance, for him it was a vital constitutional principle and it was fortunate the immediate issues was not one of "emotional content which might colour a coldly logical view of the basic principle involved." He repeated his request for four Assistant Ministers.

The Governor in his reply on July 19th, answered the Chief Minister's legal arguments. The letter had appealed to Section 19 of the Order-in-Council which provides for consultation with the Council of Ministers and acceptance of their advice with certain exception, and had taken this principle as applying to Section 32 which provides for the appointment of Assistant Ministers. But the Governor pointed out that their appointment was permissive and for decision by the Governor after consultation with the Chief Minister. He held that "The Order-in-Council clearly preserves to the Governor certain powers and duties, and these powers and duties cannot be given up or delegated to the Council of Ministers within the context of the Constitution." He adhered to his previous decision and regretted its translation into a constitutional issue. In his view, his decision implied no lack of confidence in the Government. On the Chief Minister's reference to the Civil Service which suggested a doubt of their loyal and efficient support of Government, he expressed his confidence that such support would be given.

By this time the issue had become public property and the Chief Minister's threat of resignation was known. His proposal for Assistant Ministers was strongly criticised, but he moved on to the constitutional issue, and was prepared to reconsider the ministerial issue. July 20th was the day when the Chief Minister after two meetings with the Governor announced his intention to resign on the grounds that he would not be a "shock absorber for Colonialism" and that "the Governor could not reject their advice and retain their services."

The decision to resign has not been popular, and still is not so. The Press and Trade Unions have urged him not to resign. He decided to remain in office till the matter was debated by the Legislative Assembly and till the three bills with which they were particularly concerned because of their social implications—the Labour Bill, the Land Registration and the Land Values Bill—had been passed.

The special meeting opened on Friday July 22nd. The motion for discussion is important enough to be quoted in full. It reads: "That the Speaker do convey to the Governor the view of this House that the people of Singapore are determined to end colonialism and to rule themselves through their elected representatives; And that as a de-

THE ANTICS OF MONEY IN SOUTH CHINA (1935-1948)

By E. Kann

In view of the close economic relations existing at all times between Hongkong and South China, and particularly in consideration of the paramount role played by the Hongkong dollar in Kwangtung Province, it probably will prove of lasting interest to delve into the career of Chinese currency spread within the southern provinces from the time of the Chinese memorable currency reform of November 3, 1935, to the stage of departure for Taiwan of the Nationalist Government. My story, pieced together from notes taken by myself during my sojourn in China, has so far not yet been narrated in a cohesive manner.

By way of prefatory remarks, let it be recalled that already in about 1905 the Kwangtung authorities surreptitiously converted their paper notes into one calling for 'small coin' in silver. Such action naturally called for and created a good deal and justifiable mistrust amongst the public, actually causing heavy monetary losses. From the first year of the Republic, the Canton mint became notorious for its prolific manufacture of low-grade 20 cents pieces, thereby creating innumerable further complications. One of the results of this anti-social policy was that the mercantile community of Kwangtung Province steadily adopted

monstration of the good faith of Her Majesty's Government in its oft-repeated promise to the people of Malaya that they would grant self-government at the earliest possible moment, the most liberal construction legally permissible in favour of the elected representatives of the people in the interpretation of the Singapore Colony Order-in-Council 1955 should be adopted; And that where the Governor is required by the provisions of the said Order-in-Council to consult with the Chief Minister before taking any action, he should act in accordance with such advice." It continued that the Speaker should convey the message to the Governor, and the Assembly would decide the next step in the light of the reply. Incidentally this role of the Speaker must be unique in the history of Colonial Parliaments.

The Speaker first read a message from the Governor who repeated the assurance in his inaugural address of his "whole-hearted help and guidance" to the Council of Ministers. He re-affirmed his constitutional position and claimed that the re-interpretation asked for by the Chief Minister was tantamount to an amendment to the Constitution, and required negotiations with H.M.G. He said the Secretary of State for the Colonies agreed and had asked that the amendment should be discussed with him when he came to Singapore. He regretted the constitutional issue had been raised on a "relatively minor matter" at a time when it might jeopardize the progress of the past three months.

The Chief Minister opened the debate strongly after the end of the period of "tempestuous honeymoon". He held that the legitimate rate of progress under the Constitution was being frustrated. In the past he had had to fight over his status and even office accommodation as Chief Minister. If they were to have responsibility, they must have power. They would not be "gold-plated shock-absorbers for Colonial rule". He repeated the arguments of his letters. He broadened the issue to contend "that to apply a restrictive, unimaginative construction to this Constitution on the basis that it was never intended that we should have rapid self-government is to destroy all faith and to destroy all possibility of peaceful existence." The motion was seconded by Mr. Lee Kuan Yew, leader of P.A.P., in a moderate constructive speech, supporting the principle but not the appointment of the Ministers, and urging the need for a settlement. An amendment by the Progressive Party that the Chief Minister could not be accepted as the arbiter of the Constitution was defeated. The Assembly then adjourned till Monday, July 25th, because of unforeseen limitations found in the Standing Orders.

During the week-end opinions changed and hardened but the biggest surprise of all was that the Progressive

Party, arguing that if the Chief Minister wanted some of the powers he should have all and there would then be no issue with H.M.G., proposed that "the time has arrived for a transfer of power from the Government of the United Kingdom to the people of Singapore, and that a new constitution providing for independence should be granted immediately."

When the Progressives agreed that self-government should be substituted for independence, the Chief Minister seconded it. The significance of the change lies in the Chief Minister's view that independence for Singapore alone is not possible; it is only possible with the Federation when the political association is established. Meanwhile self-government is internal self-government, leaving defence and foreign affairs to the Governor, and with the official element withdrawn from the Council of Ministers and the Legislative Assembly. It was adopted, though with the expression of strong views on the Progressive volte-face. After a series of speeches by Ministers and Assemblymen from both sides, including one by Che Haji Jumat, leader of the UMNO-MCA-SMU group denying any division in the ministerial ranks, the motion was passed by 28 votes to 1, the three official members abstaining and Mr. G. A. P. Sutherland, a Nominated Member voting against. The Party whips had been withdrawn.

The motion was taken to Government House by the Speaker and the Assembly re-assembled in the afternoon to hear the reply of the Governor, that as the motion passed was more far-reaching than the original one, he required time to consider his reply. This was not considered satisfactory, but no discussion was possible by the Speaker's ruling and the Assembly adjourned to the following day. Immediately however the leaders of the parties met and decided to adjourn the public business of the morrow's session to allow time for a reply. When therefore Oral Questions were finished on July 26th, the Chief Minister moved the adjournment for 7 days. He cautioned against undue optimism and concluded "I would like members to come prepared to rush through all legislation that can be handled at the next meeting on the basis that it may be a final meeting."

The crisis had developed in ways not foreseen, but not inexplicable. But there is no one not believing that a settled government, efficient administration and a healthy economy require its resolution in a way which will prevent any immediate recurrence. To use Edmund Burke's phrase, the medicine of the constitution must not become its daily food.

the Hongkong dollar as pivot for its commercial transactions, but also as basic monetary unit for its savings and reserves. Frequent internecine strife amongst contending military leaders in South China naturally augmented the mounting economic difficulties of those provinces, bringing in its wake untold deficits and hardships to the sorely tried populace.

Kwangtung and China's currency reform

Upon the announcement of the basic principles of China's currency reform scheme of November 3, 1935, the provincial authorities of Kwangtung promised compliance and co-operation; and, on November 7, prohibited the use of silver for monetary purposes, adding that the people will not even be permitted to retain silver in minted form, or in the shape of sycee or bullion. At the same time, the proclamation assured the public that the Government will not resort to inflationary measures under any circumstances and emphasizing that the note-issue will be supervised by a special Reserve Board formed jointly by the people and Government. However, the decree omitted to mention the existence of any measures pertaining to the stabilization of the Canton 'small coin' dollar in terms of foreign exchange.

A set of measures for the enforcement of currency control in Kwangtung was announced by the Kwangtung Provincial Government in a proclamation issued on the night of November 6, 1935. The proclamation briefly stated that, in order to conserve the currency reserves of the province and to relieve the province's financial situation, the Kwangtung Government, following the precedent of other provinces, endorsed the Central Government's monetary reform and issued the following measures for the enforcement of currency control:

- (1) With effect from November 7, the notes issued by the Kwangtung Provincial Government shall be legal tender.
- (2) A Currency Reserve Board shall be organized.
- (3) The 20-cents pieces shall be withdrawn by the Provincial Government.
- (4) All silver bullion and silver bars shall be sold to the Kwangtung Provincial Bank at face value.
- (5) All contracts entered into before November 6 in terms of silver dollars shall be discharged by the payment of legal tender dollars.
- (6) People shall be permitted to buy or sell foreign currencies, but not to directly utter the same.

With the abandonment of silver dollars or bullion for currency purposes, any person found in contravention of the provision prohibiting the use of silver dollars was punishable in accordance with the law.

Chaos in the Canton Markets

Considering the currency of the neighboring British Colony of Hongkong, then extensively employed throughout Kwangtung Province, the proclamation stated that the public may continue to buy and sell Hongkong dollars in order to facilitate foreign exchange requirements, but the direct circulation of Hongkong currency and domestic transactions within Kwangtung were strictly prohibited.

Since November 6, 1935, the price of Hongkong banknotes in Kwangtung had been soaring considerably, the premium finally reaching a figure of 53.2 cents.

However, while the Canton Government endeavored to co-operate with the Central Government in its new monetary policy, the financial market in that city was thrown into a chaotic state on November 7, 1935. At that juncture

the authorities offered to exchange silver dollars against legal tender notes only at par. Upon this ruling Chinese banks, which had been closed for two days, reopened once more for business. Sup Sam Hong, the Wall street of Canton city, presented a scene of feverish activity, as people began to exchange their silver holdings against legal tender notes. Many carloads of silver were brought to the Provincial Bank's strongroom. At that time numerous arrests were effected of people who tried to smuggle silver out.

The Central Bank of China had sent down \$30,000,000 of its legal tender notes for the purpose of exchanging these against silver. However, as the supply was too small for the task ahead, the Kwangtung Provincial Bank, as well as the Canton Municipal Bank, were authorized to newly issue 20 and 50 cents subsidiary notes, as well as large denominations, namely \$50 and \$100. By November 13 the Kwangtung official banks had redeemed \$8,000,000 of the silver formerly in traffic.

As a corollary to the currency reform of November 3, 1935, aiming at the unification of the entire country's currencies on the basis of the silver yuan, the Canton authorities decreed on May 26, 1936, that silver coins would henceforth be exchanged against legal tender notes in three stages. People wishing to exchange their large silver dollars in the course of the first period, would receive a premium of 20%; those exchanging large silver dollars during the second stage, would be rewarded with a premium of 10%; while those bringing their dollar pieces during the third period would have to be satisfied with an exchange against notes at par.

In order to assist the Kwangtung Treasury, the Nanking Ministry of Finance made an appropriation of \$10,000,000, to serve as a premium, to be given to parties converting large silver dollars into legal tender banknotes during the first and second stages. Kwangtung's silver stocks were to be placed under the control of a Note-Issue Supervisory Committee which would be authorized to buy \$30,000,000 worth of legal tender notes from the Central Bank of China for an analogous sum of silver. The withdrawal of Canton small-coin paper money was to be accomplished gradually; after the fulfilment of this task, Central Government banks' notes would be legal tender.

The Commanding General Takes Leave

On July 11, 1936, United Press, and also the Central News Agency, brought telegrams from Nanking, saying that the Commanding General of Kwangtung, Chen Chi-tang, was about to wind up his affairs preparatory to leaving the southern shores for Hongkong on retirement. However, such liquidation, according to the notions of the General, signified the sale of Kwangtung's silver currency reserves, then estimated at \$90,000,000, against which there was supposed to be a note-issue aggregating \$200,000,000 in circulation. Chen Chi-tang's projected action, tantamount to expropriation for his private purse, would have spelled utter ruin to Kwangtung's finances.

In order to forestall such a derogatory step by General Chen Chi-tang, the Government delegated Mr. H. O. Tong, then Superintendent of Customs at Shanghai, and Mr. Feng Jui, to Canton for the purpose of negotiating with the militarists there. The pourparlers resulted in a tentative agreement, after intervention by Messrs. Tsuyee Pei and Tang Shou-ming, in terms of which the Kwangtung militarists consented to exchange \$20,000,000 in silver against an equal sum of government banks' issued paper money. And into the bargain was thrown a vague promise that henceforth Kwangtung would discontinue the issuance of fiat money.

On July 16, 1936, The Kwangtung Provincial Note-Issue Reserve Control Board announced that receipts to that date of silver reserves from provincial and municipal banks then in custody of the Board aggregated \$84,000,000 in small coin and \$90,000,000 in 'big' silver dollars.

In the "Bank of China Monthly" of September, 1936, it was reported that, according to investigations undertaken by the Central Government, the specie reserves (in 20-cents silver coins) showed a deficit of \$40,000,000, while the collateral reserves (bonds, treasury notes, etc.) displayed a shortage of \$100,000,000. With a view to stabilizing the credit of Canton money, the Central Government would have to issue an internal loan to cover the deficit. This stabilization loan was actually issued on August 21, 1936, in the shape of bonds.

Simultaneously two tentative measures were decided upon:

(a) The banknotes issued by the Kwangtung Provincial Bank and the Canton Municipal Bank, totalling 249,580,000 in small coin, will continue to circulate in the province.

(b) Taxes originally paid in legal tender notes, issued with the approval of the Central authorities, will continue to be paid in such notes. Where such legal tender notes were unavailable, taxes should be met in the notes emanating from the Kwangtung Provincial Bank, according to the rate of exchange between the Kwangtung notes and the legal tender notes prevailing on the date of payment. The rate of exchange should not exceed small coin \$1.50 for one legal tender dollar.

The announcement explained at length why the Central Government could not fix the value of Kwangtung banknotes too high, adding that the possible effect upon agricultural and economic conditions had to be considered, as well as prices of commodities. At the same time, Mr. Koo Yi-chun (popularly known as Y. C. Koo), a very able and forthright financier, was appointed President of the Kwangtung Provincial Bank.

Final Ratio of Kwangtung Money Fixed

Mr. T. V. Soong, then chairman of the Board of Directors of the Bank of China, announced on June 27, 1937, that the Canton small coin dollar had been fixed at the ratio of 1.44 to one legal tender dollar, and that all Kwangtung banknotes would be withdrawn by January 1, 1938, in order to be replaced by the unified national currency. The wording of the relevant decree was as follows:

- (1) Beginning from July 1 (1937), all business, private and public transactions shall be expressed in terms of national currency. Business and financial transactions expressed in terms of Kwangtung small coin currency after that date shall be illegal.
- (2) \$337,849,000 Kwangtung small coin notes, which were issued by the Kwangtung Provincial Bank and the Canton Municipal Bank up to June 19, will be converted into legal tender notes at the rate of 144 dollars Kwangtung small coin notes equal to 100 dollars national currency. This rate shall be applied to all small coin notes in circulation before the end of the current year.
- (3) All small coin notes formerly issued by the Kwangtung Provincial Bank shall be retired by the government banks and by the Kwangtung Provincial Bank.
- (4) The Kwangtung branch of the Currency Reserve Board shall retain a proportionate reserve for the small coin notes still in circulation.

In an interview Mr. Y. C. Koo stressed the necessity of synchronizing the currency of Kwangtung Province with the rest of the country's. He dwelt upon the need of ousting from South China the Hongkong dollar which, after all, distinctly was a foreign currency. At the same occasion Mr. Koo indicated the ratio of reserves in silver to Kwangtung small coin notes in circulation at 64%.

It could not be maintained that the new order found a favorable echo throughout Kwangtung Province. In spite of the threat of severe punishment, numerous Cantonese citizens defied the authorities' order to exchange small coin \$1.44 for one national paper dollar, calling the ratio too high. Wealthy residents continued to acquire as much Hongkong currency as possible, depositing same in foreign banks. This meant, of course, lowering the value of Chinese money, and concomitantly also price advances in imported commodities. This was the situation 15 months after proclaiming Kwangtung Province currency reform scheme.

A further disappointment came in July of 1939, according to a Reuter cable from Canton, dated 28th July. Therein it was stated that the price of Kwangtung banknotes stood at four per centum premium over national notes. This was due to the loss of confidence in the legal tender dollar, subsequent to the Sino-Japanese war and to the fear that the Anglo-Japanese currency agreement concluded at Tientsin might include an interdiction of circulating the national (fa-pi) dollar in Kwangtung Province.

The occupation of Canton by the Nipponese military machine, and the invaders' grip on financial affairs, naturally left their unfavorable traces on both Chinese national and Kwangtung small coin currencies. A Domei (then the official Japanese Telegraph Agency) wire from Canton, dated January 11, 1940, reported that Chinese business in Canton had been brought to a standstill owing to the refusal of shopkeepers and restaurants to accept Kwangtung currency, while the Chinese legal money had been discounted 60%, as compared to the military yen. The situation became very tense, since Chinese money-changers refused to exchange either Kwangtung small coin dollars, or national legal tender notes, into military yen brought in by Japan.

As a direct result, mob rule became the order of the day, culminating in the looting of Cantonese rice shops. Only rice shops would accept national dollar notes, but at double the price fixed for rice. The Reuter Agency, in a telegram dated January 12, 1940, from Canton, asserted that the opinion was being expressed there that the crisis was engineered by the Chinese, in order to prevent national currency from falling into the hands of Japanese militarists, thereby giving them the means to purchase foreign exchange.

While Japanese militarism ruled supreme in Canton City, as well as in some coastal regions of South China, the interior of Kwangtung Province remained under control of the Central Government, then seated at Chungking (Szechuen). In various such interior places the Kwangtung Provincial Bank continued to function almost unhindered by the foe.

Currency Confusion in Kwangtung

Not only in the field, but also in the realm of economics, did the war proceed unabated, since China would not listen to Japanese entreaties for peace. Shortly after having occupied certain seaports in Kwangtung, the Nipponese military authorities lost no time in spreading their military yen scrip, backed by Japanese bayonets. By means of propaganda, as well as by adopting unilateral forcible measures, the aggressors forced the value of the fa-pi down to lower levels.

In the beginning of 1940, an acute shortage of one-dollar bills, both of national and provincial issues, made itself felt in Kwangtung, thus seriously affecting the poorer classes. Money changers declined to handle five and ten dollar notes, except at discounts, often as high as 50%. As a consequence, many retail stores closed their doors for business. Due to such a tense position it became almost impossible to effect purchases for less than five dollars. Under such circumstances the cost of living soared rapidly to the extent of about 50%.

From the fairly steady quotation of national dollars 147 to 100 military yen the rate dropped to \$127 fa-pi. But this displeased the Japanese who made use of their power to fix the ratio at 220 dollars for 100 military yen. This arbitrary measure threw the population into a state of panic. The Kwangtung 1-dollar bills, formerly accepted at full face value, now had dropped to only 50 cents. Acceptance of these notes was in most cases declined altogether, and the Japanese military yen became the currency in Canton. Only the Kwangtung Provincial Bank's subsidiary notes for 10 and 20 cents were being accepted, apart from military Japanese scrip. Citizens striving to purchase rice were first asked in which currency they proposed to settle the deal. If Nipponese military yen were being offered, the price for six catties of rice was one yen. Only two catties were obtainable for one small coin dollar note; and when five-dollar bills were tendered, the buyer would obtain five catties of rice only. While the Japanese gendarmerie was requesting money changers and retailers to accept Chinese currency at the officially decreed rates, it did everything possible to discredit Chinese fiat money and to boost the market price of their military yen scrip.

All municipal taxes in Canton had to be effected in military yen notes. And all purchases made by Japanese soldiers there were, of course, paid for identically. A rather ingenious way to discourage the people from using national currency was the appearance of counterfeit Chinese money, most likely "made in Japan".

On the other hand, in 'free' Kwangtung the ratio of small coin \$1.44, as proclaimed by the rightful Chinese Government, was strictly maintained. Stability of provincial notes was then ascribed to the fact that, for the first time in four years, the budget of the province under General Li Han-yun had now been balanced.

Currency Reform in the Remainder of South China

Apart from Kwangtung Province, which by far is the most important area with the densest population, there remain the provinces of Kweichow, Kwangsi and Yunnan to be considered. Kweichow is the least important amongst those districts, and no important news as to currency reforms emanated from there. In Kwangsi monetary conditions were modelled after those prevailing in neighboring Kwangtung Province, although the circulation there was not inter-dependent. Kwangsi minted 20-cents silver pieces modelled after the Kwangtung silver subsidiary coins, with dates up to the 16th Year of the Republic (1937). And it was only in that year that action could be taken in Kwangsi.

Many endeavors had been made in bygone years, following the currency reform, to bring Kwangsi into line with the rest of China as regards the uniformity of the currency unit, namely the fa-pi. It was only in the beginning of November, 1937, that a definite decision was reached on the subject, in terms of which Kwangsi—beginning from December 1, 1937—was to join in the universal use of the national yuan, abolishing its old unit of the small coin dollar. The latter, for years past, had been at a heavy discount, es-

pecially because it was available mainly in the shape of much depreciated paper money. The ratio finally adopted for effecting the change was 1 to 2, i.e. 100 Kwangsi small coin dollars were made equal to 50 yuan fa-pi. The reform deserves special comment, since it was accomplished in the course of a severe national struggle. In order to obtain the means necessary for the innovation, the National Government authorized the issue of a domestic loan for altogether \$17,000,000, secured on the salt revenue of Kwangsi Province.

Yunnan Province, known for its prolific production of 50-cents silver coins and for the banknotes muddle as handled by the provincial financial institution, the New Futien Bank, also fell in line with the policy adopted by the Central Government. But action there was considerably delayed.

It was only on May 14, 1937, that the legal tender note universal system was enforced by the Yunnan Provincial Government and the Pacification Commissioner's headquarters. Beginning from the following day, all transactions had to be concluded in terms of fa-pi, and no more silver money was to be circulated.

The term "legal tender" comprised paper money issued by anyone of the four government banks, and also as emitted by the New Futien Bank. Silver in traffic or hoard was to be handed in by holders within three months, i.e. before August 15, 1937.

Kwangtung under the Impact of Inflation

Although an integral part of China, Kwangtung Province often followed an independent monetary policy. This course of action was caused by the vitally diversified traits inherent in Southerners when compared with the inhabitants of Central or North China, coupled with different basic conditions prevailing in the South.

The years immediately following World War II did not cause outstanding differences between conditions prevalent in Canton versus the remainder of China. But, as galloping inflation reared its ugly head, Canton also was badly affected. At times commodity prices in the Southern metropolis exceeded the rapidly mounting culminating points witnessed at Shanghai. Failing to find suitable employment for its large population, Canton became the headquarters for organized smuggling rings.

The extension of hostilities in North China in 1948/49 intensified the southward migration of capital to a temporary haven for funds seeking security. The rapid growth of such idle funds in Canton had to lead to speculative transactions and to an accelerated velocity of currency circulation. Since Chinese fiat money divulged daily declining levels, the Cantonese constantly bought Hongkong currency by way of hedging. Not only were Hongkong banknotes hoarded, but frequently also employed for buying and selling commodities in South China.

Due to generally unfavorable economic conditions, coupled with ridiculously small import quotas, trade in Canton was languishing toward the close of the first semester of 1948. Under such conditions smuggling became the principal vocation for the Chinese populace. Imports brought in surreptitiously consisted of forbidden luxury goods, while exports smuggled out were mostly rice and cloth.

The following table is derived from official statistics published by the Central Bank of China. It places on record the commodity price index for the city of Canton during 1948:

1948	Index:	Times over same period of 1947
January	118,176	9.00
February	192,700	17.90
March	281,754	25.54
April	407,997	32.45
May	652,680	39.70
June	968,660	46.00
July	2,603,000	98.70
August	4,388,000 (1 to 19)	125.50
August	4,977,000 (20 to 31)	142.10
September	8,925,000	239.20
October	14,820,000	804.80
November	47,460,000	714.48
December	78,780,000 (First half)	879.10

From the foregoing tabulation it will be deduced that December prices were 666 times higher than those for January. Deposits in Cantonese banks during the first ten months of 1948 were indicated as follows:†

January	C.N.C.\$	160,000,000,000
February		221,800,000,000
March		198,900,000,000
April		250,700,000,000
May		1,350,500,000,000
June		1,022,500,000,000
July		50,107,000,000,000
August	Gold Yuan	2,789,091
September		4,733,164
October		3,931,285

Various independent sources estimated that, by the close of 1948, an approximate total of \$200,000,000 Hong-kong currency was circulating in South China, apart from about US\$40,000,000 banknotes, and closely to 4 million

ounces of gold. There was cause to estimate the volume of smuggled imports and exports at about three times the quantities and values coming officially under the cognizance of the Customs authorities. In the course of the first six months of 1948, 200 cases of smuggling were officially recorded by the gendamerie of Canton, involving the arrest of 612 persons, and goods seized to the value of over CNC \$1,000,000,000,000.*

The Shanghai Maritime Customs, during the year 1948, were confronted by 2,906 instances of merchandise smuggling, involving values to the extent of C.N.C. \$104,500,000,000. Of these, 2,247 cases, entailing C.N.C. \$66,900,000,000 worth of goods, were connected with South China.

But not merely the urban population of South China suffered great hardships in connection with the rampant inflation. Still more were the rural inhabitants affected by the critical economic situation, mainly by the exorbitant taxation, requisitioning of supplies and conscription. Apart from these curses farmers were constantly threatened by bandits. Finally, the entire economy, already completely undermined by current events, was held down by excessive rates of interest (sometimes up to 10% per day), in which Kwangtung Province was leading.

† See "Economic Weekly", Shanghai, of January 12, 1949 (in Chinese).

* This is separate from the much more numerous instances tracked down by Chinese Maritime Customs officers in South China.

ECONOMIC OUTLOOK IN JAPAN

The effectuation of the deflation policy has contracted Japanese economy. This contraction generally hit bottom around last autumn. Though subsequently there were some who anticipated an upward shift in business, the current economic condition is not showing a rally. The unsatisfactory state of economic realities is the greatest cause for this though contributing factors include internally the political vacuum, and externally the increasing bearish sentiment due to anxiety over world trade hitting the ceiling.

Economic activity appears to be maintaining a favorable tone if one observes the production aspect along on the basis of recent economic indicators. According to the survey of the Ministry of International Trade and Industry, the mining and manufacturing production index for April is maintaining the level of 198.7 (1950 = 100), showing a slight drop from the postwar peak figure of 199.6 of March, 1955, but a rise of 4.9 per cent above the standard for April, 1954. Seen according to commodity categories, all have witnessed upswings in production—textile and chemical goods markedly—with the exception of non-ferrous metals, machinery, rubber, etc., which are following a downward course. In spite of such favorable state of things in the production field, the general deflation current as a whole has not been shifted, but rather, the march of deflation is revealed in the following several aspects:

1. Business transactions are conspicuously dull. The national department store sales total for April was 5 per cent lower than that for March. The weak tone continued in May. 2. The manufacturer inventories, which have been moving along a downward course since July, 1954, switched upward in April. According to industrial categories, accumulation of coal stocks is marked in the mining division, and all-around upsurge is seen in the manufacturing field with the exception of iron and steel, non-ferrous metals, ceramics, leather. 3. The drop in commodity prices is striking. The

wholesale price index reached its peak at the end of February and thereafter continued to slip 3.2 per cent by the end of May. The fall of textile and iron and steel prices is most pronounced. 4. Business failures are again on the increase, the insolvency of small and medium textile business being especially conspicuous. Overall, financial difficulties are appearing among enterprises. 5. The unemployment total rose rapidly since the beginning of the year, reaching 840,000 in March. This total is 42 per cent higher than the 590,000 figure for March, 1954. The recent upsurge of the jobless population is certainly abnormal even if consideration is given to the seasonal factor of the rush of jobseekers in the school graduation month of March.

Thus, recent business reveals indications which require considerable caution. It follows that the economic situation has not yet reached the recovery stage. Rather, there are signs pointing to the unfolding of "secondary deflation".

Weakness of Textile, Iron and Steel

Recent business situation is showing an increasingly sluggish tone. What draws greatest attention is the weakness of the textile and iron and steel markets. First of all regarding textiles, the trend toward the weakness of cotton yarn and fabric market has become most conspicuous of late. Spot open market quotations of cotton yarn (Count 20's, per pound), in particular, fell to ¥175 as of May-end, breaking below the ¥180-line, again staging a price slump similar to that of June, last year. The following causes can be enumerated for such aggravation of the cotton yarn and fabric market:

(a) The sluggish domestic demand led the weavers to be conservative in the production of summer fabrics, decreasing the purchase of yarn. (b) The export of cotton fabrics fell by 22 per cent from 106-million square yards,

last year's monthly average, to a monthly average of 82-million square yards for January-April, 1955. In the immediate future, stagnant overseas demand cannot be avoided because Southeast Asian areas entered the rainy season in June. (c) Accumulated stocks of cotton yarn and fabrics reached 498,000 bales (calculated in terms of yarn) at the end of April. This is bringing heavy pressure on the market tone. (d) The business of small and medium cotton spinners have become unprofitable. Some have come to an impasse. Not only dumping has been seen but also cautious sentiment regarding the future is growing among trading companies and wholesalers.

In face of such climate, cotton spinning circles have put into effect a 12 per cent curtailment of production since May with the objective of rallying the market tone. Because results have been slight, further operation cutdowns are being deliberated. It is considered that these measures will show actual results in improving the supply-demand situation only after July.

For the present, American cotton market leans toward future declines. And, although the much-expected agreement with Pakistan for the export of textile goods under American foreign aid programme has recently been signed, the export volume is limited to about 40,000 bales (less than one-tenth of the stocks on hand) and it is insufficient quantitatively to lead to improved market condition. It can be forecast that the price decline of cotton yarn and fabrics will continue for the time being if these various circumstances are taken into account.

Following in the wake of the weak cotton market, rayon, staple fiber and wool yarn prices are also moving slowly downward. It is held that early market recovery of these categories also will be difficult unless there is a fundamental improvement in the supply-demand ratio.

On the other hand, the iron and steel market has also been showing weakness since March, although it is not so bad as in the case of textile. Regarding primary products, bar steel, which was near ¥40,000 at the end of February, 1955, fell to ¥33,000 at the end of May; steel shape fell from ¥47,000 at the end of February to ¥36,000 at the end of May, both showing wide scale price slump. As to secondary products, galvanized iron sheet, nail and wire dropped 3 to 4 per cent during mid-April to mid-May.

The following circumstances can be listed as direct causes of such weakness of the iron and steel market: (a) As to domestic demand, there was no large scale demand with the exception of from shipbuilding circles. Manufacturers related to electric power development, construction, rolling stock, and bridge-building, held off purchases in expectation of the delay in Government disbursements due to the fact that April to June period is covered by the provisional budget. As the result, large purchases were postponed. (b) On the other hand, smaller sections are also refraining from buying in anticipation of future price declines. (c) With the arrival of the due date for bills drawn by second and third rate wholesalers during January and February, this year, these circles hastened to convert stocks into cash. (d) The export trade, which was the principal buttress of the past iron and steel boom, became hesitant, export contracts showing a declining trend.

There are not the only reasons for the recent weakness of the iron and steel market. Operating in the background is the vital factor of the surplus of production capacity. As a matter of fact, the production of ordinary steel and steel materials reached the annual rate of 6.5-million to 7-million tons during February and March, this year, compared to 5.6-million ton annual output for last year. In face of this production rate, the annual demand is forecast to be in the neighborhood of 6-million tons at the most. Thus, curtailment of plant operation is again being discussed

due to the very great likelihood of future supply excess. Such state of affairs operates as a great pressure factor upon the market.

As to the prospects, present market condition is not expected to collapse suddenly for the reason that (a) a system of concerted action regarding quotations and production is being prepared among various manufacturing companies, and (b) the companies concerned are placed in a position of being unable to sell cheap due to rising cost of raw materials.

In consideration of the present supply-demand relationship, however, a basic recovery of the market is considered difficult unless very drastic regulatory measures are enforced in the production sphere.

Prospects

The weakness of the basic business tone typically revealed in the textile and iron and steel market indicates fundamentally that the supply-demand unbalance is gradually coming to the surface. This is one of the reasons that the "business will turn for the better in the second half" view has recently disappeared completely. Factors which can be expected to serve as a foundation for a new turn in business are almost non-existent even when the trend of foreign and domestic demand and the domestic money market, which have vital bearing upon future business curve, are examined.

1. Though quiet, large scale easing of money market cannot be expected:— This fiscal year's over-disbursement in Government finance expenditures is forecast to decline to the ¥70,000-million level, compared to the ¥190,000-million for last year. Thus the easing effect of state expenditures upon the money market this year will be weaker than last year. But for the time being, there is no fear of an exceptional pressure upon the money market because of a number of easing factors as seen in the following circumstances:

(1) Disbursements moved up unexpectedly fast in Government financing during April to June in spite of the fact that it was the provisional budget period. As the result, an over-disbursement of ¥30,000-million is expected for the period, about the same level as that of the preceding fiscal year (¥33,000-million). (2) In usual cases, state financing turns to over-withdrawal in and after July. This year, however, Government expenditures are considerably higher due to favorable trend of foreign exchange balance, disbursement of advance payment for contracted rice purchase, and restoration of public works subsidy payments, etc. It is forecast that over-disbursement will reach the ¥30,000-million level by September. (3) Bank deposits are expected to increase smoothly in the future in view of the fact that the people's disposition to save is on the upswing. On the other hand, demand for funds is generally dull due to deflation effects.

The present money market will not be tightened: it being expected for the time to evolve uneventfully. But in the interim, Bank of Japan still continues to adhere to its tight money policy, not relaxing its demand of collecting its loans. Even the increase of the Bank of Japan official interest and discount rate in August or September is expected. Thus, easing of the money market does not appear possible, even presupposing that Government disbursements move smoothly in the future.

2. Signs of stagnation in effective demand:— Factors for business improvement must be sought in the movements within the national economy itself as long as extensive easing of the money market cannot be hoped for. In such a case, how effective demand will shift in the future is the greatest concern but too much an expectation cannot be placed therein.

First, export trade: One of the major pillars of business prosperity is still maintaining a favorable tone along the

ECONOMIC LETTER FROM TOKYO

The Bank of Japan revised its rates on discounts and loans on August 9th, effective the following day. Along with this, the Bank decided on an over-all revision of its 'higher rates application system' (progressive rates on discounts and loans), effective August 17th.

\$1,800-million a year level. However, there is a probability of future Japanese exports hitting the ceiling or declining sooner or later, if due account is taken of fading overseas business tone, weakening of world merchandise market, tightening of import restrictions in the sterling area, etc. Already there is seen a decline in export contracts for two great export commodities, textile and iron and steel. Furthermore, American special procurement orders are feared to decrease from \$600-million for 1954-55 Japanese fiscal year to around \$500-million for 1955-56. The upsurge of domestic demand is the prerequisite to the expansion of effective demand because demand overseas is oriented toward the attainment of the peak and a decline thereafter.

Secondly, following points become clear when various factors determining future demand are surveyed: (1) Personal consumption at present is showing a marked decline. The slump in sales has become general with deflation effects not only into urban areas but also into agrarian districts. Increasing wage and salary earnings (principal factor in the past expansion of domestic demand) has already shown retardation. This is shown by the fact that (earned) income of Tokyo Metropolis wage and salary earners for February, 1955, declined by 4.5 per cent compared to the same month of preceding year, a downturn for the first time since 1951. Thus it cannot be thought that consumption will expand on a large scale in the future even granting that consumption-expansion measures—reduction of taxes and increase of social security payments—are adopted in the sphere of Government financing.

The Economic Counsel Board's estimate of the 1955 fiscal year economy sees a 2.1 per cent upturn for combined urban-agrarian consumption compared to the previous year. But the rate of increase is strikingly low when compared to 16 per cent for 1952 (so-called consumption boom year), 13 per cent for 1953, and 5.4 per cent for 1954. Because a drop in commodity prices can be expected in the future, it can be considered that the nominal expenditure for consumer goods will move sideways.

(2) On the other hand, private investment still continues dull. Orders for machinery for the current January-March period were 12 per cent lower in volume compared to the corresponding period of last year. Much of the increase in state finance investment and financing is going to the Export-Import Bank, housing projects, and electric power development, the fund of the Development Bank of Japan, industrial category, becoming essentially less than the previous year. The supply of industrial funds is subjected to pressure because most of the bank debentures financed by the Treasury fund is being transferred to city banks, resulting in the possibility of a curb on investments for rationalization and modernization of private industries which form the foundation of economic expansion and equilibrium.

With such state of affairs, it cannot be expected that state investment and financing will act as an inducement to private investment. In view of the fact that the pressure of excess capacity continues strong over the entire industrial world, it appears that sluggish tone is unavoidable as a whole, though limited expansion among larger enterprises is anticipated.

Revised Rates on Discounts and Loans (% p.a.)
() = Former Rates

Discount on Commercial Bills	7.30	(5.84)
" " Export Advance Bills	5.84	(5.84)
Loans Secured by Export Advance Bills	6.21	(6.21)
" " Import Settlement Bills, Import Freight Bills	7.30	(6.21)
" " Gov't Bonds, Designated Local Gov't Bonds, Designated Corporate Bonds and other Securities, Agri. Bills	7.67	(6.21)
Other Secured Loans	8.03	(6.57)
Overdrafts	8.40	(7.67)

The aim of the current measure is to normalize the Bank of Japan money rate structure and to apply official rates as the principal instrument in credit controls instead of the former progressive rates. As credit extensions from the Bank of Japan reached enormous amounts to meet abnormal post-war conditions, credit controls by the Central Bank were effected by the imposition of higher-than-official rates on borrowings in excess of the basic credit lines. More recently, however, the trend has been toward financial normalcy, and borrowings from the Bank of Japan have dwindled sharply. Hence, the credit control mechanism was regularized by raising the rates on discounts and loans and imposing penalty rates only in exceptional cases. Consequently, the Bank of Japan effective rate has remained unchanged. The rate on export advance bills (heretofore exempted from the higher rates) was left unchanged. The former effective rates on import settlement and freight bills were applied as official rates. Direct effects of this financial normalizing measure on bank rates are believed negligible, although a gradual decline in call money rates is envisaged (call rates were strongly affected by the former 'higher rates application system'). Moreover, it is hoped that a further normalization in bank rates will follow.

The Labor Ministry White Paper (Analysis of Labor Economics in 1954) was made public on August 2nd. It points out to the appearance of various factors—awaiting urgent solution—in the labor economics scene, as by-products of the tight fiscal-monetary policy. The key to expanded employment is laid to efforts towards strengthening of the economy for achieving economic self-support and normalization.

Salient points are: (1) The stringent line in effect since October 1953 achieved remarkable initial results as seen in the favorable turn of the balance of payments. However, the labor scene has aggravated during 1954 with declining regular employment, rising unemployment, wages in arrears, and dullness in the rise of wages and consumption. (2) However, these negative factors were merely 'uncovered' from their dormant state in the inflationary economy prior to the stringent policy. That is, employment and wage rises since 1950 were only possible under the expanded economy propped mainly by large expenditures of the Security Forces and excessive fiscal loans and investments—in other words, under a make-believe prosperity. (3) In the ultimate sense, solution of the unemployment problem arising from the economic normalization process is possible only in an expanding economy. Economic expansion and development is entirely dependent on continued economic consolidation for attainment of economic self-support and normalization, and export expansion.

Japan finally earned the right of GATT membership as a formal contracting power, effective Sept. 10th, as a result of 33 assenting votes of the contracting parties. Reaction of the business and financial community is generally favorable, but at the same time they voice strong hopes for the Gov't good offices as regards reported moves by certain contracting parties to invoke Art. 35 which would have the effect of diluting the significance of GATT participation.

ECONOMIC REVIEW OF MALAYA AND BRITISH BORNEO

Severe Tests For Singapore's New Government

Events have moved swiftly since the Labour Front took office as Singapore's first mainly-elected government after the April elections, and its task of guiding the colony in its first few steps towards independence has been complicated almost from the start by organised strikes, the separatist attitude of the Chinese community and by differences of view between the Chief Minister and the Governor about interpreting the new constitution.

Growing Labour Unrest

The new administration had hardly taken office before it was faced with labour trouble. On April 25th, the employees of a bus company stopped work after a disagreement with the management over reinstatement of men who had been dismissed, and by the end of the month the monthly paid staff of the Singapore Harbour Board had come out in support of demands for higher pay, and various other labour groups withdrew their services. The bus dispute led to differences between rival unions and serious rioting broke out as Chinese Students defying the police, stormed in to support the strikers. On May 16th the government had to ask the Legislative Assembly to restore to the police the curfew powers that had been withdrawn from the emergency restrictions only a fortnight earlier. Striking spread in the next three weeks to several other industrial firms, and on June 12th the Shop and Factory Workers' Union, a new, very left wing body which has been responsible for a good part of the recent trouble, tried to engineer a general strike, ostensibly in support of the Harbour Board clerks. Moderate trade unions, in the event, retained the upper hand and, with a peak number of only just over 17,000 workers, involved, support flagged and the humbled SFWU was compelled to call it off in order to save face.

This, however, was not the end of the trouble, workers at several industrial plants remained on strike and others, including city council employees, have now threatened to withdraw their services. A nervous and tense, undercurrent remains. The danger of a fresh outburst is inherent in the very nature of the recent strikes—that they were nearly all organised for political motives and had little basis of workers' economic needs. At the back of them was the fellow-travelling Peoples' Action Party, bent on discrediting the Government and securing immediate rather than gradual independence. The situation is the more disturbing since the strikes made evident the gap that exists between the Labour Government and the unions whose support it ought to have.

The Chinese Problem

Another particularly disquieting feature was the part played in the strikes by Chinese students and schoolboys, the most vociferous of the Chinese Community. This growing predominance of the student-led left is tending to widen the gulf that already exists between the Chinese on the one hand and the remaining half of Singapore's population on

the other, and so complicates the achievement of stable independence which will be difficult to reach so long as loyalties remain divided. This difficulty is likely to be a long term one, for the Chinese are determined to maintain their cultural differences, in the face of official desires to merge their education with the colony's general system. The government's attempts to close some of their schools or purge them of communist elements after the riots in May were short-lived. A Chinese resolution drafted early in June for presentation to an all-party committee that is to consider Chinese education made it clear that the Chinese expect equal support and status for their establishments, but without any of the controls the Government exercises over its own schools.

Who Governs—Chief Minister or Governor?

During the past weeks a third problem has developed, almost to the point of causing the government's resignation. This arose out of the refusal of the Governor to appoint more than two of the junior ministers that the Chief Minister had recommended in order to relieve the strain on the cabinet. Constitutionally Sir Robert Black was acting within his powers and made it plain that the new constitution was intended to provide slow and measured self-government. But Mr. Marshall regarded the acceptance of his advice as a question of principle—a simple test of whether the elected government or the Colonial Power effectively ruled—and threatened to resign if this fact were not recognised. At the meeting of the Legislative Assembly he called on July 22nd to consider how to proceed, he found other opinion on the issue even stronger than his, and a Progressive Party motion was passed calling for immediate self-government. This has now been transmitted to the Governor and the Assembly adjourned for a week pending his reply.

It is hard to see what the outcome will be. Although Mr. Marshall is moderate in his views, recognising that the Colony is not ready for independence, feeling may have run too high to be satisfied with anything but a fundamental change. The danger is that should his government fall, it would be succeeded by one even further to the left.

Malaya Goes to the Polls

These disturbances stole a good deal of the limelight from the elections in the Federation on July 27th, at which the Alliance between the United Malays National Organisation, the Malay Chinese Association and the Malayan Indian Congress, was chosen to lead the Federation's first party elective Legislative Assembly. The Alliance won hands down by gaining 51 seats out of the 52 elected, the remaining one being won by the Pan-Malayan Islamic Party. Its main aims are to work for Independence by 1959, offer an amnesty to the terrorists and turn the heat on them if that does not work, to revise taxes and duties and thereby encourage industry and trade, improve road services and make land available to the poor peasants.

This programme will be difficult to achieve in its entirety and doubtless the new government will run into many troubles. But it is much less likely to have to share Singapore's experiences of post-election disorders, for its members have considerable administrative experience behind them and the Chinese (40% of the population, but only a tenth of the electorate) are rather less politically militant there.

The above review was compiled by the Economist Intelligence Unit, London, who are issuing on practically every country in the world quarterly reports together with voluminous statistics and charts and geographic maps. Interested persons or organisations may enquire for subscription rates and other services to be supplied by the Economist Organisation either directly to the head office: The Economist Intelligence Unit, 22 Ryder Street, London, S.W. 1; or to the Hongkong representative, Mr. Eric E. Halpern, 322 Queen's Building, Hongkong.

The government has promised to set up a commission to study the problem of assimilating them.

New Drive Against Terrorists

Meanwhile the pressure to end the Emergency is being stepped up. The latest official estimate puts the number of terrorists at between 3,500 and 4,000, or less than half the 1951 peak, but acknowledges they are still as strong as ever in Johore. The authorities categorically rejected a peace offer made by the terrorists in June in the form of a letter to the United Planters Association, on the grounds that it reflected their growing weakness and aimed at confusing the electors and the new government. Instead they have drawn up new plans for psychological warfare and tracking down subversive activity.

IMPROVED COMMODITY PROSPECTS

Rubber Prices Highest Since Early 1952

In the economic front the outlook has brightened in the past three months and Malaya is enjoying prosperity for the first time since the boom following Korea. Rubber has confounded all the pundits in breaking through the 3/- mark to reach 3/3 a lb. (No. 1 RSS Spot) in the third week in July, over a shilling a lb. higher than at the beginning of the year and the highest since early in 1952. The rise started when rumours that the U.S. General Services Administration intended to reduce its stockpile by 200,000 tons—which brought prices down earlier in the year—were officially denied, and gathered pace as it became clear that nearby supplies, particularly of the best grades, were insufficient to meet rising demand. Production is at a seasonally low level just now, and a good deal of the material has been sold as latex. Meanwhile Russia has come into the market again for sizeable quantities—estimated at 6,000 tons in June and possibly twice that amount in July, all of hard-to-come-by No. 1 sheet, and other buyers are believed to have quickened their interest for fear sterling might be devalued, which would naturally push the price up further.

The supply position should right itself in the coming months as production recovers and prices will probably ease again. But the strong statistical position makes any marked fall unlikely in the foreseeable future. The International Rubber Study Group estimates world production at 570,000 tons in the first four months of this year, against 555,000 tons last year, whilst 622,500 tons, 30,000 tons more, were consumed. Thus, even allowing for a seasonal rise in output in the coming months and a possible levelling off in consumption, supplies are likely to be only barely sufficient to match consumption for the year as a whole. Stocks are low in consuming countries, at the end of April they were about 10,000 lower than a year earlier, with sharp reductions in US, UK, France and Japan. Consumption in the US is on a high level and, although automobile sales will probably be slower in the second half of the year than in the first, there should be no serious interruption in production now that a threatened strike has been averted. And so long as total rubber consumption in the US is high, its natural rubber offtake will also be high, notwithstanding the fact that its proportion of the total has fallen to 42 per cent, because synthetic rubber plants now, in private hands, have not yet got into their stride.

Malaya's Output Continues To Rise

Production of rubber in the Federation, especially on smallholdings, has reacted sharply to the rise in prices. Smallholders' output was 35,899 tons higher in the first half of the year than in January-June 1954, and that of estates up by about 4,500; total output therefore rose by about 15

per cent to 304,573 tons. And, although exports showed a successive drop in each of the last three months of the period, for the first half of the year as a whole, they were 26,800 tons higher, at 483,500 tons, than during January-June 1954.

Tin Recovers Sharply

For tin, as for rubber, the past three months have brought a sharp, though less marked, rise in prices. The average cash value in London now stands (July 26th) at £167 a ton, over £60 more than at the beginning of the year and the highest for twelve months. This is because most of the uncertainties worrying the market before have now been cleared up, at least for the time being. In particular, the US Government's decision to keep the Texas Smelter going for another year after all, means it presumably will go on adding to its stockpile, which has been absorbing the world surplus of tin in recent years. And this may mean that contracts with Indonesia and Bolivia, already prolonged for three months, will be extended further. Thirdly, the prospects that the International Tin Agreement will come into operation, at least by early next year, are brighter now; the ratification by the Governments of the Netherlands and France means enough consumer votes are assured and only Indonesia's approval is needed on the producers' side.

Another promising omen for the next few months is the fairly narrow balance between supply and demand which, on the basis of figures for the first four months of the year may amount to a surplus of as little as 20,000 tons for the year as a whole, or less than has hitherto been absorbed by US stockpiling.

Malayan Output Up

Better prices should stimulate output in Malaya and elsewhere. And the reduction in terrorism may enable prospecting to be stepped up. An improvement was already in sight by April. During the first four months of the year output amounted to 20,007 tons, compared with 19,386 tons in the same period of 1954.

Nevertheless, the mining companies view the future with considerable misgivings. Chairmen's addresses to the annual general meetings of three prominent mining associations recently reiterated the considerable disincentive effects of heavy duties and taxation which take almost half gross profits, the insecure land tenure arrangements which hamper prospecting, and the general lack of security for capital. Whilst current prices are doubtless remunerative, these factors militate against an expansion.

The output of other minerals has been rather less satisfactory than tin. Gold production rose from 4,860 troy oz to 5,579 troy oz between the first quarters of 1954 and 1955 respectively, and that of coal was up from 52,903 tons to 54,026 tons. Both iron ore and bauxite, however, made disappointing showing, outputs dropping respectively from 226,818 tons to 164,503 tons and from 49,293 tons to 47,572 tons.

Coconut and Palm Products

World markets for most oilseeds and vegetable oils have been fairly firm, helped by Russian buying, and values of Malayan products have improved. Coconut oil fetched £92 a ton spot at the end of July, against £90.10 at end April and palm oil moved up from £80 to £88 (Oct./Nov. delivery); Copra, on the other hand remained steady at about £66. Market prospects are fairly favourable, for, although forthcoming crops are expected to be bigger, overall world demand and supply for fats and oils are expected roughly to balance this year according to one prominent expert.

Final figures show that palm oil production rose from 492,000 tons in 1953 to 540,000 for last year, copra from 151,200 tons to 164,400 tons, and coconut oil from 96,000 tons to 134,400 tons. Copra and coconut oil appear to have started this year badly, but palm oil is maintaining the upward trend.

Pineapples

The pineapple industry is progressing well. Extensive war damage has been made good and, although the average is only a third of pre-war, production has fully recovered. An important change is that pineapples are now an established business and no longer merely a catch crop in new rubber estates. Last year \$M25 million worth were shipped abroad, against \$M19 million in 1953 and only \$M2.4 million in 1947. There are several plans for expansion, including a new \$M5 million company which will bring more land under pineapple and so help absorb the present surplus of packing capacity.

Forestry

Another industry likely to benefit as the security situation improves is timber. But export prospects are uncertain, so that output is probably not expanding as rapidly as it could do. 385,200 tons (of 50 cu. ft.) were cut last year against 376,800 tons in 1953, but 1955 began with rates lower than a year ago. Exports last year were down to 103,200 tons, from the 1953 figure of 105,600 tons, mainly because British buying dropped sharply. Timber merchants believe, however, that there is a potential market in Australia.

FOREIGN TRADE

Trade Increases In First Half Year

Improved prices for rubber and tin caused Malayan trade to rise to \$M3,685 million in the first six months of the year, or 25 per cent higher than the comparable period for 1954. Whilst imports increased by 21 per cent, exports were up by 29 per cent and there was a surplus instead of a deficit.

Malaya's Trade

	(\$M million)	
	1954	January-June 1955
Exports	1,452	1,869
Imports	1,495	1,816
Balance	-43	+53

Import Prospects

The Federation is enjoying its first period of really buoyant trade since the boom of 1950-51 and, although rubber prices are unlikely to remain at current levels indefinitely demand for imports should be buoyant for some time to come.

The textile market appears to be more settled after nearly three years of extreme difficulties; many of the more speculative buyers have been weeded out, and stock levels are more realistic. Though traders are trading carefully, and expect increasing competition in export markets, especially from Japan, they anticipate some improvement in local demand and in shipments to Indonesia. Better quality British piece goods will probably benefit especially. There should also be an increase in sales of other consumer goods especially durables and semi-luxuries such as sewing machines, cycles, household hardware, radios, cameras, watches and cars. Improved revenues from rubber and tin will mean less financial restraint on development than in recent years, when the emergency was at its height and revenues low, and

this will bring a continued demand for building materials, cement, iron and steel, contractors' plant, electrical equipment and fittings, cooling equipment etc. And, although business in Singapore has been somewhat tempered by political happenings there, industry continues to expand in the Federation and will need prefabricated buildings, machinery, office equipment etc. Supplies of most of these lines have improved over the past six months, but here and there, as in the case of steel reinforcing bars and other shapes and hardware, prices are reported to have risen and deliveries have lengthened.

Increased Competition From Japan and China

Although Britain is of course well-established in this market, competition is getting keener and Japanese goods in particular are more in evidence. In the textile trade especially many British firms are finding it hard to match the Japanese in price and delivery and Japanese manufacturers themselves, realising quality counts, have improved the quality of their products. One or two British exporters have even found Japanese designs being preferred to their own, although this has tended to be the exception so far. The extent of Japan's comeback in the textile market is shown in the trade figures; it supplied 52.4 million square yards of cotton piece goods last year against 34.6 million square yards in 1953, whilst total imports dropped from 171.5 million square yards to 133.9 million square yards, and those from India, hitherto the main supplier, were 8.4 million square yards lower at 51.5 million square yards. Japan may also obtain orders for electrical equipment and other machinery, iron and steel, vehicle parts and tyres.

The value of Japanese imports more than doubled between January-February 1954 and the same months this year—mainly, on account of increased purchases of textiles, and iron and steel. And the liberalisation of Japanese goods in February and March should facilitate a still sharper rise in coming months.

China is also trying to sell more in Malaya and elsewhere in South East Asia. Although it is unlikely to offer competition on a very broad scale, political considerations may cause it to increase supplies of certain lines. Nails, wire, building materials plywood, pens, pencils and other sundries have been included in recent offers, and British and Japanese cycle manufacturers are concerned at the prospect of Shanghai-made bicycles and sewing machines coming on to the market shortly. These last two, it is reported, are bearing lower price tickets than in the Chinese domestic market.

Better Prospects for Trade With Indonesia

The livelier state of domestic trade has not been matched in the entrepot business; partly because of keen Japanese competition in other South-East Asian markets and partly because of continued difficulties over imports into Indonesia, an important customer, especially for textiles. Exchange difficulties and a firm desire to direct the import trade through its own ports had caused Indonesia to clamp down on imports from Singapore two years ago with the result that they fell from \$M219 million in 1953 to \$M142 million last year. This has caused growing concern to Singapore firms and has increased unemployment in the colony, where some 16,000 people are officially stated to be without work. Traders asked the government to look into the matter and Mr. Marshall expressed his intention of leading a goodwill mission to Djakarta to endeavour to smooth relations.

Since the beginning of the year, however, the position seems to have improved a little. Exports to Indonesia jumped from \$M15 million in January-February 1954 to \$M27.9

million this year, mainly on account of textiles, shipments of which increased five times from \$M321,000 to \$M1,644,000. And they may rise further because the Indonesian government, pressed with a problem of acute inflation, is having to allow in more imports of scarce goods—particularly textiles, radio and vehicle parts, industrial supplies and household hardware. This change should benefit the Colony as well as Japan since under the new bidding system introduced by the Indonesian authorities earlier this year import entitlement certificates tend to be granted on the basis of price and speed of delivery.

DEVELOPMENT

World Bank Recommends Self Help

The development enquiry mission sent by the World Bank to Malaya early last year has now presented its report to the governments of the Federation, Singapore and the U.K. Whilst acknowledging that per capita incomes in the territories are high relative to elsewhere in South East Asia the mission stresses the importance of vigorous development since the population is growing rapidly and may double in the next twenty-five years. It therefore recommends the capital expenditure programme of \$M775 million over the five years (1955-59) for the Federation and \$M610 million for Singapore.

The suggested programmes broadly follow the existing pattern, rubber and tin and (for Singapore) entrepot trade, are expected to continue to dominate the territories' economies. The revitalisation of the rubber industry is stressed in view of increasing competition from synthetic, and to this end it is recommended that \$M125 million be spent on replanting. And other suggested allocations include \$M44 million for agricultural drainage, \$M170 million for roads, broadcasting, and telephones, \$M80 million for electric power, \$M100 million for various other public works, and \$M20 million for loans to building societies. Geological surveys to stimulate mining development, particularly of tin and iron ore, are suggested and a system of vocational training for small industries. In Singapore, better public services, roads, market places, low cost houses and schools are seen as the prime needs.

Although the report is not unduly pessimistic, it is clear, reading between the lines, that such schemes will not be easy to finance. Despite the rises in rubber and tin prices, revenues at existing rates are likely to remain fairly static in the long run, whilst expenditure will rise. Thus, although external assistance should be available and government reserves can be drawn upon, an increase in taxation is regarded as inevitable, unpopular though that would be with the business community.

Business Disturbed in Singapore

The present political atmosphere has increased the uncertainty of some local and foreign businessmen about the future for operations in the colony. Although a while ago, several Hongkong firms were keenly enquiring after factory sites, their demand has practically come to a standstill lately, according to one leading estate dealer. Other firms, local and foreign, are cutting back their plans for expansion partly because of trading difficulties with neighbouring countries, but also because of political events. The Alexandra Brickworks, a British-owned company, has abandoned a \$M7 million expansion scheme because of disturbing labour conditions. Another firm has decided to drop plans for establishing a plastics factory, and makers of biscuits, soft drinks, boot polishes, toothbrushes and medicines have reduced output.

Building

Building, one of the prime expansive forces in Singapore and the Federation, does not appear to be affected, however; construction is proceeding rapidly and there is a steady flow of new projects and plans. Housing is urgent, especially in Singapore, to meet the rapid population growth, and, in addition to the schemes of the Singapore Improvement Trust which has been for most in the construction field to date, several private firms are building houses for their workers and the Singapore government has now come forward with a plan for providing low cost houses on an instalment basis. The latest industrial project to be announced is a 15 storey block for Shell, costing \$M44 million, work on which is expected to start in the autumn.

Power and Public Services

The expansion of public utility services is also proceeding and is likely to be stimulated, rather than retarded by political changes. This autumn should see the completion of the Connaught Bridge Power Station, near Klang, the Central Electricity Board's largest project, the first half of which is now operating. Plans are now being drawn up for a new station at Malacca with an initial capacity of 20,000 kw which will eventually be doubled. An extensive programme of transmission development is also in hand. The Board hopes to tap the hydro-electric resources of the country and to this end has been surveying the Cameron Highlands near the Pahang Perak border, where it is thought 120,000 kw could be economically harnessed. The improvement in power supplies will mean rising demand for electric apparatus. The demand for these has been increasing since the Board launched its plan for selling appliances on hire purchase in 1953.

An important market should be opened as a result of the Federation Government's plans for spending \$M56 million on increasing the daily capacity of water supplies from 56 million gallons to 68 million gallons. Work on Kuala Lumpur's \$M15 million sewerage scheme is expected to start later in the year.

The announcement that Malayan Railways are planning a \$M20 million rail link from Kuala Lumpur to Kuala Trengganu on the east coast, offers big economic possibilities.

BRITISH BORNEO TERRITORIES

North Borneo

The past quarter has seen continuation of the general growth in activity in the Borneo Territories. In North Borneo rubber output, as measured by exports, rose from 5,341 tons during the first four months of 1954 to 6,202 tons in the same period this year, and the output of timber, an increasingly important product, has continued to rise. Last year twice as much was cut and exported as in 1953. Improved rubber prices and shipments have boosted the value of exports as figures of trade with the United Kingdom and Malaya show. Britain bought goods worth \$M8.8 million in the first five months of the year, against \$M8.7 million a year ago, rubber purchases going up from \$M3.2 million to \$M5.4 million, whilst Malaya's imports were \$M2.6 million in January-February against \$M1.3 million last year. North Borneo's imports, on the other hand, have not yet reflected these increased incomes, although they will doubtless do so late in the year. The United Kingdom shipped more foodstuffs, chemicals, cottons, metal manufactures, machinery and vehicles during January-May this year than it did last, but its total exports to the Colony fell slightly. The drop in supplies from Malaya was even greater, and more widely dis-

ECONOMIC REPORTS FROM COLOMBO

Budget 1955-56

The Minister of Finance M. D. H. Jayawardane presented his Budget for 1955-56 where changes were made either in income or profits taxes although the minimum tax payable on small incomes was lowered to 1%. If the income is above Rs 6000/- the minimum is up to 2%. A large number of import duty items have been altered to give incentives to industries by lowering the cost of raw materials and machinery and to give protection to such industries by raising the cost of some imports.

Taxes on liquor and the lottery tax have been raised. Car owners will have to pay double for their yearly car licences. A new tax on the sale of second-hand cars, ranging from Rs 100/- to Rs 800/-, has been introduced. Businessmen have been given certain concessions notably permission to carry forward losses against future taxable profits for an indefinite number of years, and any bonus shares will not be taxed as if they were dividends. Income taxpayers can now claim an allowance for the premiums they pay on life insurance policies. The housewife is helped by reduction of the import duty on tinned fish by 15% and on tinned and frozen meat by 25%. The Finance Minister also allowed two changes in export duty—on Copra and on Cocoa. The possibility of changing duties on other coconut products is to be investigated.

The following is a short summary of the main features of the Budget changes:—Income tax: No change. Liquor: Arrack, whisky, gin, brandy—up Rs 2 a bottle. Local beers—excise duty doubled. Foreign beers—up .12 cents a pint. Lottery tax: Up to 30%. Crossword tax: A new tax of 30%. Provident Fund: Withdrawals taxed at your last three years' average rate. Import Duties have been decreased on

tributed, foodstuffs, beverages, tobacco products, chemicals, textiles and clothing being the worst affected.

Sarawak

Sarawak's trade in 1954 shows it failed to expand as hoped last year. Tobacco, oilseeds, rubber manufactures, textiles, clothing, iron and steel increased on the import side but machinery and vehicles fell leaving the total almost the same as in 1953. And exports were static too, only copra rising to any extent. Things seem to have improved a bit this year, however, judging from British trade figures. Although Malaya's trade with the colony was little changed, the UK imported a higher value of timber, rubber and petroleum in January-May this year than it did last and sent more chemicals, iron and steel, metal goods, machinery and vehicles.

If a projection of last year's figures is any guide, crude petroleum output is probably rising, for last year 70,200 tons were produced, a third more than in 1953 and the biggest total since the war. Refined output, rose less sharply on account of a fall in production in Brunei, where most of the crude is obtained for refining. Rubber growers have responded sharply to improved prices and must now be more prosperous than at any time since 1951-52, production almost doubled between January-April 1954 and the same period this year—11,254 tons, against 6,358 tons. Pepper growers, on the other hand, face the prospect of a fall in output this year due to disease and floods, although perhaps by less than earlier reports suggested. 12,500 tons is the current estimate, against last year's yield of 15,000 tons.

sports goods, Vesak lanterns, sewing machines. Also on iron and steel, aluminium, brass, zinc, tin, heavy equipment like earthmovers plastic sheets, wax, asbestos fibre, cotton waste, rolled gold and motor spares. Export Duty on Copra is down from Rs 200 to Rs 185 a ton. Export Duty on Cocoa is down from .50 cents to .40 a lb. Death Duties are slightly up on estates over Rs 75,000/-.

The reactions in business quarters are favourable. Leaders of commerce have described the Budget as fair and reasonable and a pleasant surprise. The view has been expressed that the most-favoured by the proposals is the lower income group. It was on the whole a popular budget and there was general relief that there were no heavy taxes. Housewives welcomed the new cuts in import duties on tinned meat and fish etc. and sewing machines. Liquor merchants view the increases in liquor prices as the first step towards prohibition. Motor dealers felt that the increased rates on licence fees were on par with those in other countries but they feared that the transfer fees on the sale of second-hand vehicles would hit the trade. It was generally agreed that the Finance Minister had given careful consideration to the needs of the people, particularly as his proposals bring down the cost of food and consequently the cost of living.

In a survey of the economic scene, the Finance Minister said he did not expect the year 1955-56 to be as good a year as 1954-55, although the outlook was not too gloomy. A succession of cash surpluses would be kept as a cushion against bad times. He also referred to the second Six-Year Plan and promised its publication in full shortly.

Taxation Commission Report

The report of the Taxation Commission was recently issued as a Sessional Paper. The Commission, whose Chairman was Mr. K. R. Krishna Menon of India, has recommended that there should be an inquiry into Government expenditure. The main recommendation that will affect the ordinary man is that the exemption limit for income tax should be reduced to Rs 2,400 a year as soon as the Department is ready to take on the additional work involved. The exemption limit is at present Rs 4,800 a year. 29 of the 56 recommendations of the Commission such as increasing the price of arrack by two rupees a bottle, doubling the excise duty on local beer, increasing the motor licence fees and extending relief for children and dependents, have already been incorporated in the Budget. The Taxation Commission also recommended that the import duties on cotton manufactures and piecegoods be increased moderately, and that import duties on certain luxury goods now bearing 10 to 30 per cent be increased.

Minorities

The Prime Minister, Sir John Kotelawala, said that the independence that Ceylon had won for itself was not for the benefit of any one community—Sinhalese, Tamil, Moor or Burgher. It must be enjoyed equally by all communities for the common good of Sri Lanka. The Prime Minister said that every community and creed had equal rights in a country which belonged equally to them all. Any community that worked against another or tried to harm another was working against the country. On the language question, the Premier stated that as long as the United National Party was in power, the three languages (English, Sinhalese and Tamil) now in use in the Island, would be respected.

ECONOMIC REPORTS FROM CHINA

CHINA'S FOREIGN TRADE

The Minister of Foreign Trade, Yeh Chi-chuang, recently boasted that China's foreign trade would increase 66.5% during the current 5-year plan period. Last year, foreign trade amounted to more than 8,400 million yuan, and by weight over 9 million tons. Industrial installations and equipment, raw materials, chemical fertiliser and other capital goods accounted for 89.08 per cent of the total imports. Priority was given to the import of installations and equipment for the 156 major industrial projects. Last year, China began to export such light industrial products as wire, nails, knit-wear, vacuum-bottles, fountain pens and cotton goods to the amount of 150 million yuan in value. Exports of local products, animal products, fruits, tea, silk, pork, handicrafts and mineral products showed increases. Grain exports in 1954 remained at the 1953 level.

China's trade with Communist countries expanded five times in the past four years. Capital goods for national construction accounted for 93.5 per cent of the imports from these countries in 1954. Yeh Chi-chuang declared that Communist countries had supplied China with machine tools, machinery, steel products, non-ferrous metals, petroleum, precision instruments and other strategic goods. He admitted that trade with Japan had not even reached the 1950 level. On the other hand, trade with Western countries, which declined in the second half of 1951 as a result of the embargo, showed a marked increase in 1953. The Minister concluded that if Western countries would remove the trade barriers, business prospects should be broad and good.

WASTE IN CAPITAL CONSTRUCTION

At the recent meeting in Peking attended by leading government officials and representatives of different parties and organizations, Vice-Premier Li Fu-chun warned that China's industrial foundation was weak and that the accumulation of funds for industrial developments could not possibly be accomplished at a high speed. He then criticised the waste that existed in capital construction, management of production and day to day life of government workers in the past two years. A striking feature of waste was that buildings of a non-productive nature as auditoriums, office buildings and club rooms had been built too soon, in too great numbers and too lavishly. Money spent in non-productive undertakings by six industry ministries during the past two years amounted to 23.2 per cent of the total investment. During the first five-year plan in the U.S.S.R., however, such investments constituted only 15.5 per cent. Waste caused by the use of traditional style roof decorations in civil engineering projects had been serious. In some buildings, great quantities of expensive or special materials were unnecessarily used in the facade work and inner decoration. As an inevitable result of over-decoration, building costs went up considerably while the floor space available for use was greatly reduced. Li Fu-chun stated that present plans and designs for city planning should be re-examined to see that they were practical and in keeping with real conditions. He pointed out that three 5-year plans, or about 15 years, would be needed to build Socialism in China. Fifty years, or the second half of this century, would be required to catch up with the leading industrialised countries.

INDUSTRIAL DEVELOPMENTS

China's total production target for industrial enterprises for the first six months this year was over-fulfilled by 1.7 per cent in terms of value, according to Peking's statistical reports. The value of the combined output was 7.8% above

that for the first six months last year. Increases ranging from 10% to over 20% compared with the same period last year were registered for 18 major items including crude oil, gasoline, pig iron, steel, rolled steel, caustic soda, pure soda, double-blade wheel ploughs, electric power and coal. Of the total value of industrial output, the output of state-owned enterprises went up from 59 per cent in 1954 to 62.3 per cent in the first six months this year; that of the cooperative enterprises declined from 4 per cent to 3.4 per cent; that of the state-private jointly operated enterprises went up from 12 per cent to 12.6 per cent; and that of the private enterprises declined from 25 per cent to 21.7 per cent. Output of means of production increased from 42 per cent of the total industrial output in 1954 to 43.8 per cent in the first six months of this year; while consumer goods declined from 58 per cent to 56.2 per cent.

Peking also announced that China's heavy industrial output would go up by 126.5 per cent in value during the first 5-year plan period. 88.8 per cent of total industrial investments during the period would go to heavy industry. Among thousands of new products to be manufactured would be various kinds of heavy machinery, precision machine tools, airplanes, vehicles, and tractors. Taking 1952 output as 100 Peking gave following production figures for 1954: pig iron 156, steel 165, electricity 151, coal 126, oil 184.1, ammonium sulphate 164.7, cement 161, and machinery (in terms of value) 200. During the year, China manufactured 6,000 kilowatt thermo-power equipment, 154,000-volt and 20,000 K.V.A. transformers, lathes able to machine parts up to five metres in diameter, coal-cutting combines, locomotives, grain combine harvesters, whole sets of modern textile machinery, medium-sized coastal ships and inland water steamers. Among the new products now being manufactured are 10,000 kilowatt hydroelectric equipment, equipment for blast furnace of 1,000-cubic metres in volume and equipment for coke-oven plants with an annual output of 300,000-tons. Despite these achievements, China's heavy industry is still very backward. However, Peking expects to improve the situation after the completion of the 156 major industrial enterprises which the Soviet Union is helping China to build.

About 90% of the building projects of China's first motor car plant in Changchun have been completed. Installation of equipment in various workshops and power stations is now under way. Eight workshops of the chassis and non-ferrous metal working departments have already started trial production. A new pharmaceutical plant in Peking went into production recently. It produces over 200 kinds of pharmaceuticals. Six new rosin (colophony) factories in Fukien recently started production. The total output of rosin in the province this year will be 2.86 times that for 1954. The state-owned Chengchow No. 3 Cotton Mill started production on August 1st. The mill has 100,000 spindles and over 2,500 looms. The total output of salt in the first half of this year exceeded the target by 21 per cent. This is 36.7 per cent more than for the corresponding period in 1952. Meanwhile a salt lake, 50 kilometres long and over 30 kilometres wide, has been discovered in the Tsaidam Basin, Northwest China. Initial drillings show that the salt deposits are generally eight metres thick, and over 15 metres at the centre. A crystalline salt hill has also been discovered on the desert in the western part of the basin.

During the next three years, the output of consumer goods will be increased annually by 12.4%. A number of new paper mills, sugar refineries, synthetic fibre plants and anti-biotics factories will be built. During the past five years, the total output of light industry has trebled in value; that of cloth and paper quadrupled; flour and sugar trebled; and tobacco more than doubled. The proportion of the socialist sector in light industry has gone up from one-

fourth to about half of the total. However, demand for manufactured goods, especially for clothing and foodstuffs, has grown faster than the development of light industry. Authorities in Peking recently admitted that the main reason why a considerable section of light industry had not grown faster was the inadequate supply of raw materials. Large-scale development in agricultural production could not be realised in a short time. Furthermore, without development in heavy industry it was impossible to supply agriculture with large quantities of chemical fertilizer, farm machinery, tractors, gasoline, diesel oil and irrigational facilities in order to fundamentally change the nature of Chinese agriculture.

In Shanghai, two big private textile companies which employ 36,000 people will become joint state-private enterprises before October. They are the Sung Sing Cotton Spinning and Weaving Company and the Wing On Cotton Spinning and Weaving Company. The Sung Sing Company set up its first textile mill in Shanghai in 1915. The company's mills in Wush and Wuhan have already been reorganized into joint state-private enterprises.

AGRICULTURAL OUTPUT

State farms in Heilungkiang reported that the average per-hectare yield of the 48,000 hectares of wheat this year was between 1,400 and 1,500 kilogrammes. This is about 15 to 20 per cent over last year's harvest. Meanwhile, 1.2 million additional hectares of wasteland in this province are being surveyed. By 1957 a total of three million hectares of wasteland will be surveyed. Heilungkiang is estimated to have 10 million hectares of fertile unused land suited for crop cultivation. Its present area under cultivation is six million hectares.

Peking recently announced that Chinese resident abroad may apply for state-owned wasteland or unused hilly areas for farming, forestry or livestock breeding. The wasteland so acquired can be run either as a private-capital or state-private undertaking, or by individuals or cooperatives. If the land is used individually or cooperatively, there will be no charge and no term is placed on the length of time. Otherwise a fee will be charged, varying with the quality of the land and the use to which it is put; and generally a limit of 20 to 50 years will be laid down. Payment of any fee can be waived or postponed until such time as the undertaking shows profit.

DEVELOPMENT OF MINORITY AREAS

Under the first 5-year plan, great industrial centres will be established in Inner Mongolia, Sinkiang and other minority areas in addition to the power plants, iron works, farm implement factories, tanneries, textile mills, and cement works which are now under construction. Geological surveying is under way to prepare for the large-scale mining of the rich deposits of minerals in minority areas. The plan also provides for the establishment of 50 state-owned livestock farms and the provision of financial grants, technical guidance and other forms of aid for the development of livestock breeding and agricultural production in these areas. During the past few years, over 20,000 kilometres of highways, including the Sikang-Tibet and Chinghai-Tibet highways, were completed. In Inner Mongolia, the gross value of local state-operated industry multiplied 13-fold last year compared with 1949.

So far, 72 autonomous areas have been established for the 35 million people of different minority nationalities. Last year food crops production in Inner Mongolia, Sinkiang and the Chuang Autonomous Region in Kwangsi increased by 16 per cent as compared with 1952. The number of domestic animals reached 48.9 million in Inner Mongolia, Sinkiang and Chinghai in 1954, or 30.7 per cent above the 1952 figure. A commercial network with 2,340 trading enterprises were formed in 1954. There are already 26,000 schools in these areas with a total enrolment of some 2.65 million. Seven institutes were set up to train cadres from the national minorities. The number of hospital beds increased 60 per cent since 1952.

Inner Mongolia, with 20 million heads of livestock, is aiming to increase this number to 24 million during the next three years. An irrigation canal was completed last year in the Hulunbel League to improve pasturage there. There are now 237 veterinarian stations to improve horse and cattle strains as well as a number of weather stations to warn herdsmen of snowstorms. In Sinkiang, about 300,000 hectares of wasteland have been surveyed for reclamation. This is 60% of the total acreage to be surveyed this year. Before the end of 1957, 1,330,000 hectares will be surveyed and measured. By that time, Sinkiang's total industrial and agricultural output will reach some 1,293 million yuan in value. According to the 5-year plan, grain output by 1957 will reach 2,174,700 tons. The number of livestock will be increased to 23,120,000 heads. A new hydroelectric power station was recently completed by the Army stationed in Sinkiang. This station will supply power to Urumchi beginning October this year. A reservoir built in the Dzungaria Basin by the Army in Sinkiang was completed early this month. Having a storage capacity of 32 million cubic metres, this reservoir can irrigate some 14,000 hectares of farmland.

FLOOD CONTROL AND IRRIGATION

The Minister of Water Conservancy, Fu Tso-yi recently reported that outlay on water conservancy during the current 5-year plan period would amount to 2,490 million yuan, in addition to the 770 million yuan spent during 1950 to 1952. He summed up the situation on the major rivers as follows: **Yellow River:** vigorous preparations were going forward for the complete control and all-round use of the water resources of the river. The dykes were being strengthened and other measures taken to prevent dyke breaches before the completion of the huge Sanmen Gorge Reservoir. **Huai River:** 5 reservoirs had been completed in the river basin to date and another 2—the Nanwan Reservoir with a capacity of 900 million cubic metres and the Meishan Reservoir with a capacity of 2,100 million cubic metres—were now under construction. 16 water detention basins had been built. The important dyke systems guarding the great plain north of the river had been raised above the exceptionally high water marks registered in 1954. **Yangtze River:** large-scale dyke strengthening had been carried out involving 344 million cubic metres of earthwork and 540,000 cubic metres of masonry work. Important dykes including those along the Chingkiang section and around the city of Wuhan had been raised up to or above the highest 1954 water marks. Complete control of this river was much more complicated even than the Yellow River and needed much longer time. **North China Rivers:** planning had begun on the complete control of the Haiho River system to eliminate the danger of flood in the Hopei Plains and increase agricultural output. Work on the project for its tributary, the Yungting River, had already begun and work on another tributary, the Huto River, would be started soon.

Meanwhile, work on a plan to harness the 1,500-kilometre Han River, the largest tributary of the Yangtze, has begun. When completed next year the plan will include concrete measures to control the river's silt and water and utilise it for purposes of irrigation, navigation and generation of water power. Geological drilling and surveying for the giant Liukia Gorge multi-purpose hydro-power project have begun on the Yellow River near Lanchow. This is one of two great reservoirs to provide power and prevent flooding on the lower reaches of the Yellow River. It will produce 5,000 million K.W.H. of power annually.

COMMUNICATION LINES

The roadbed of the Shigatse-Gyantse Highway in Tibet has been completed. Work is continuing on more than 300 bridges and culverts. This highway will join the Lhasa-Shigatse Highway now also under construction. They will link Lhasa, Shigatse and Gyantse, Tibet's major cities. Work on a new east-west highway through the northern part of the Tsaidam Basin has just started. The 900-kilometre high-

HONGKONG NOTES

TROUBLE FOR HONGKONG'S TOURISTS

The travellers arriving here are usually enthralled by the scenery and the commercial facilities offered by Hongkong but they are also appalled by the behaviour of many Chinese which is, to say the least, very unfriendly. That US servicemen are very often abused and victimised has become obvious and cannot but have a detrimental effect on the tourist business of this Colony. But civilians are also, though not so frequently, maltreated—and even local foreign residents who may appear in the eyes of inexperienced Chinese as tourists are, in those parts of the city which are usually frequented by tourists, pestered and very much annoyed. The situation has recently been aggravated as, it seems, more organised 'tourist promotion' gangs have commenced with their sort of activities.

One cannot possibly exaggerate the degree of annoyance to which many bona fide tourists, including visiting foreign service personnel (US, French, Dutch, Portuguese), are subjected and in which many local European residents have to share. These conditions are truly atrocious. Those local Chinese who are so viciously pestering and persecuting Europeans who appear to them as casual visitors and travellers, do the Colony the greatest possible disservice, and they also cause very many visitors to hold a most unflattering opinion of the Chinese generally. Local tourist conditions are in sharp contrast to conditions obtaining elsewhere in the Far East; in Japan the tourist is always made to feel comfortable and happy—but any comparison between Japan and Hongkong, in connection with tourism, would seem to be quite out of place as Japan is so much more civilised and advanced. In the Philippines, in Thailand, in Indonesia, tourists are not treated, as they very often are in Hongkong, as objects of exploitation. To travel in the countries mentioned above is a pleasure for tourists; but to return to Hongkong, as a European resident, is very often felt to be most annoying on account of the swarms of 'brokers', beggars, thieves, tailors' salesmen, pimps, etc. many of whom are quite ready to abuse when no 'business' results.

way, linking the Chinghai-Tibet Highway in the East with the Chinghai-Sinkiang Highway in the West will be completed in November. The 120-kilometre highway to the Yi Autonomous Chou in the Liangshan Mountains in southeastern Sikang will run from Sichang in Sikang, to Chaotieh, the capital of the Yi Autonomous Chou. This new highway now under construction, will be the western section of an inter-province highway between Szechuan and Sikang. When completed, it will link the Liangshan Mountains area with the richest southern districts of Sikang and the Sikang-Tibet Highway at Sichang. A survey is being made for a new highway to link Kiuchuan Basin with Tsaidam Basin in Northwest China. When completed, it will cut 1,000 kilometres off the distance between Yumen Oilfield and Tibet. This short cut will pass through Kilien Mountains, deserts and marshes before joining the Chinghai-Tibet Highway.

The building of the Yangtze River Bridge was started early in July. This double-decker road and rail bridge will cross the Yangtze, at Wuhan. This year, work will be done on four or five of the eight foundation piers. The railway bridge across the adjacent Han River, which meets the Yangtze at Wuhan, was finished last winter.

The first through passenger train from China to Vietnam left Peking for Hanoi on August 2. With the opening of this twice-a-week service the trip from Peking to Hanoi covering a distance of over 2,970 kilometres takes about four days.

The local Civic Association has for a long time been considering the facilities available for the large number of American naval personnel who come to Hongkong for "rest and recreation". This is not only a matter which concerns the personnel. It is also a matter of great importance to the general public because of the large amount spent by these men in Hongkong, which has been estimated at approximately HK\$3,000,000 every month. It has been suggested in certain quarters that the present state of affairs is far from satisfactory and has resulted in a large number of naval personnel not taking full advantage of the recreation facilities which Hongkong is able to provide. The following complaints have been investigated by the Civic Association in conjunction with the Servicemen's Guides Association, and the Hongkong Council of Women:

(1) The large number of touts who swarm around naval personnel at Fenwick Pier: when the men are landed the police usually throw a cordon around the entrance of the pier, but once the sailors are through the cordon the touts swarm around them and stick to them like leeches. The Civic Association realizes the legal difficulties involved in stopping this practice. However, there are laws against obstruction and vagrancy and if these are insufficient other legislation ought to be considered. The American sailor is entitled to be treated as any other tourist coming ashore and to receive the same consideration for his well-being. The Civic Association recognizes the good work which has been done by the Servicemen's Guides Association and would like to see local guides licensed to perform the genuine function of assisting naval personnel to visit reliable shops and places of interest.

(2) Recurrent complaints have been made that shoeshine boys and young children obstruct the movements of American sailors and the Civic Association recommends that a more serious view of this should be taken by the police. Whilst individual cases may seem of a trivial nature, the cumulative effect of repeated obstructions and interference is a source of irritation to many naval personnel.

(3) There are several establishments which are illegally offering temptations to American servicemen which are an unfair inducement to them to spend their earnings in the wrong direction. Several tailor shops have been provided liquor to American seamen and have been supplying them with girls. The Civic Association does not wish to take a prudish view of this problem but seeks to attack organized vice operating under the cloak of a business transaction. Apart from other considerations, this is unfair to many tailors who are not prepared to stoop to practices of this kind.

Many bars catering for the seamen are apparently prepared to risk their licences by permitting unaccompanied women to remain on their premises. Here again, more vigilant police action would appear desirable. Another practice which is all too frequent is for servicemen to be plied with drink and encouraged to steal equipment from their ships for sale ashore. No doubt, the police are doing their best to procure evidence which would lead to convictions in cases of this kind.

It is perhaps not generally realised that Hongkong has been specially selected as a leave port for American naval personnel. The selection of Hongkong for this purpose can be cancelled at short notice and the resultant loss to business if such cancellation should take place, would have serious repercussions in many directions.

HIGHER COST OF LIVING

Retail food prices have recently advanced and at present they are on the average 25 to 30% above prices ruling on 1st August. Restaurants have frequently hiked their prices. Chicken is no longer, in many restaurants, quoted as costing a certain fixed amount but, very ominously, stated to be charged 'in accordance with prevailing market prices'. As cost of living is rising, for no apparent reason though, demands for higher salaries and wages could be expected.

Rice is also advancing in price. The market is more than well supplied so much so that Government may reduce the allocation as importers cannot sell the whole amount which they are required to bring into Hongkong. The continuous smuggling of rice into HK which is on a large scale seems to upset both Government and importers' calculations. The people are well supplied with rice and indeed with any type of food. But prices are, for the majority of the population, too high and recent increases may have repercussions. The vernacular press has shown signs of impatience with this price advance, and there is, as usual, the demand made to learn from Government why these price advances have been 'permitted'. The so-called rice monopoly is often accused, in private discussions and in the press, of having conspired to raise the price of rice and thus to cause the people sufferings. How far these accusations are true is not easy to determine as official information is reticent on this point.

The whole rice import scheme of Government is under attack by sectors of the public and is no doubt an embarrassing matter for Government, particularly so as the import smuggling of rice, apart from the moral angle involved, seems to expose the weak and inefficient preventive service, and may cause outside observers to hold the view that smuggling is flourishing here and its suppression would appear to be beyond the ability of the public organs entrusted with this work.

The cry for more information and for discussion of the problems of the people as far as their economic needs are concerned has risen in recent months. While the various Government departments are issuing excellent monthly and quarterly and of course annual reports from which much can be learned, vital information on problems of the day seems to be lacking. The attention of many people here has now been focussed on events in Singapore where an elected government under the inspired and respected leadership of Chief Minister David Marshall is paying close attention to the wishes and needs of the people. The local authorities would be well advised to take up matters which are of concern to the people here, and explain reasons for official action or inaction, and inform the public on such points as the present high cost of food and the rice import policy and rice prices.

THE BRITISH COMMONWEALTH

At the quarterly luncheon of the British Commonwealth Association last week, the Governor of Hongkong stated that the British Commonwealth of Nations was a sort of living United Nations covering a very large surface of the earth and having representatives from every continent. The Commonwealth is not a "bloc" in the sense of the "Communist bloc" or the "Western bloc", nor is it an alliance bound by treaty. The bond is a bond of the heart and the symbol is the Queen. The Governor further explained that originally the British Commonwealth, or as it was first called, the British Empire, consisted of two kinds of colonies: those empty lands that were settled by people from the British Isles; and those that were climatically unsuitable for European settlement, such as West Africa, whither a limited number of traders went out to trade or

to run estates during their active years before retiring back to their motherland. Then there was India, but India was never regarded as a colony.

In course of time the settler colonies developed into self-governing Dominions and could leave the British Commonwealth altogether if they wanted to. It was at one time thought that it was not possible for a colony to become a Dominion unless its stock was originally from Britain or Europe, as in the case of Canada and Australia. That is quite incorrect. For example, Ceylon is now a Dominion. India was never a colony. It was originally ruled by the East India Company; then, twenty years after its governance was taken over by the Government of Britain, it was made the Empire of India. In 1947 India became a Dominion and in 1949 it became a republic, whilst at the same time remaining within the Commonwealth. Each one of the Dominions is an independent state. When, for instance, the Queen was touring New Zealand, Australia and Ceylon, she went as the Queen of New Zealand, the Queen of Australia and the Queen of Ceylon, and not as the Queen of Great Britain. The advantages, although intangible, are very real. For one thing, war between these independent but loosely linked states is banned, not banned by any formal document but because war between them just isn't on: it's unthinkable. But it is not only the members of the Commonwealth who are the gainers by the existence of the Commonwealth, it is the world at large, because it is in effect a sort of living United Nations covering a very large surface of the earth and having representatives from every continent. It is perhaps the greatest bulwark of peace in the world today.

NEW BUILDING PROJECTS AND SQUATTERS

The existing old structures at 18-20 Connaught Road Central in Hongkong and at 317-321 Nathan Road in Kowloon will soon be replaced by new multi-storey buildings. The Ritz Amusement Park at North Point is being gradually demolished for the construction of 11-storey apartment houses. Throughout the Kowloon Peninsula, new buildings are being erected on sites of demolished old buildings. It was recently estimated that there are now over 3,000 vacant flats on both sides of the harbour. On the other hand, more squatters and street sleepers are being created by the demolition of old buildings.

Many old buildings, eyesores and obsolete structures, are being demolished in the central district, as well as in many other quarters of the twin cities. The demolition of old buildings has created serious problems not only for tenants but also for shops and stores which have to find, if they want to continue in business, new premises. This is most difficult as suitable spaces in the central and the adjoining districts are at a high premium. For shop premises or portions of such premises very large amounts of 'consideration' money are being paid.

The rebuilding is incessant; as demolitions proceed and new structures rise on the ruins, new plans, ever more ambitious, are being announced or talked about. Money for new building is fairly easy to find but it is expensive; bank rates having been hiked, the private money market, where most real finance is being conducted, had taken the cue. Chinese from overseas territories, apparently afraid to keep too much of their wealth in those lands, are prominent these days in construction business. They do not know what else to do and so they follow the prescribed investment practice of putting up houses, buying land, and leaving it at that. The profit motive and consideration for return are not always the guiding principles; security is often the thing which these investors have uppermost in

HONGKONG COMPANY REPORTS

HONGKONG LAND INVESTMENT COMPANY

In order to re-develop the site of Jardines Building at the corner of Pedder Street and Des Voeux Road Central, the HK Land Investment & Agency Co., Ltd. last week resolved to: (1) offer to shareholders, 200,000 unissued \$25 shares at par value of \$25; and (2) issue and allot to Jardine, Matheson and Co., Ltd., or to their approved nominees, 100,000 shares being part of the unissued share capital of the Company of \$25 each at a premium of \$35 per share. In the case of the first resolution, no fractional certificates will be issued, but that shares representing fractions will be sold and the net proceeds of sale, less the amount of \$25 per each share will be distributed proportionately among shareholders who are entitled to such fractions. According to the Chairman's (Mr. H. D. M. Barton) statement, the directors have reached an agreement with Jardine, Matheson & Co., Ltd., for the purchase of their premises at No. 18, Pedder Street for the sum of \$6 million. The property consists of a four-storey office building, with some 11,000 square feet of land. The site will be re-developed immediately following the completion of Alexandra House next year. Jardine, Matheson & Co., Ltd., will be provided with alternative accommodation during the period required for redevelopment, and thereafter premises in the new building on the site with a Lease for 21 years. It was estimated that the proposed new building will cost about \$7 million. Including other expenditures, the total amount required for the purchase of the site and cost of rebuilding will be about \$13½ million.

The 200,000 shares to be issued to shareholders will raise the sum of \$5 million. A further \$2.5 million will be available from the Reserves, leaving \$6 million still to be found. Jardine, Matheson & Co., Ltd. agreed that they or their nominees would take up a further 100,000 new shares on October 1, 1955, for cash at the price of \$60 per share, this being the full nominal value of \$25 per share together with a premium of \$35 per share. This will raise the balance of \$6,000,000 required. The issued capital of the company is 1 million fully-paid shares of \$25 each. The current market value stands above \$70 per sharee.

TEXTILE CORPORATION OF HK, LTD.

At last week's annual meeting, the Chairman (Mr. G. E. Marden) announced that the payment of a dividend had to be deferred until such time as the cash position of the

their minds. Here may be found the answer to the apparent riddle why so many new apartment houses are being built while thousands of flats are standing empty, and for a long time now, and why new plans for construction of more flats, are being, perhaps recklessly, made by Chinese from neighbouring Far Eastern countries and also by locally domiciled Chinese who have found that emigration—the always enticing dream—has become almost insuperably difficult.

The Resettlement Department has been preventing new squatting on Crown land in the urban area. During the past 12 months, patrols of the Department frustrated the construction of no fewer than 4,884 illegal structures on Crown land. In addition, there are squatters in scavenging lanes, in backyards, on footpaths, in stairways and even on roof-tops. To these may be added the street sleepers. The Resettlement Officer recently stated that nothing could yet be done about the street sleepers (estimated to number 7,500). It seems that if the development of replacing old buildings with new flats of much higher rental is allowed to gather momentum, there will still be a large squatter population left after the completion of all the planned multi-storey resettlement buildings in Hongkong and Kowloon.

company should justify it. Mr. Marden explained that the year 1954/55 had been a difficult one, partly as a result of the tightening of import restrictions in some of the Asian markets for Hongkong products. It would have been still worse but for substantial purchases effected by Korea in the first six months. Faced with the necessity of finding

FINANCE & COMMERCE

RUBBER REPORTS

Malaya exported 335,133 tons of rubber for the first four months of this year. This was the highest export figure for the first four months of any year since 1951. The increase resulted from renewed U.S. interest in this market. American buyers bought 68,551 tons of all forms of natural rubber during the period.

World production of natural rubber during 1955 is estimated to be around 1,845,000 long tons. Substantial additional capacity for the production of natural and synthetic rubber would appear more favorable if demand warranted it. The world might consume, that is turn into manufactured goods, 1,830,000 long tons of natural rubber and 955,000 long tons of synthetic rubber apart from the synthetic rubber produced in Soviet countries. The balance of estimated production over estimated consumption of natural and synthetic rubber amounted to 45,000 long tons which would be available for absorption into governmental and commercial stocks.

Consumption of new rubber in the United States in March set a new monthly high, while consumption for the

other markets local producers turned to Europe and Africa, and in particular there was a substantial expansion of the sales of Hongkong cloth to the United Kingdom. However, even taking into account this increased volume, the Colony's sales to the U.K. accounted for only a small fraction of Britain's overall cloth imports. It was most disappointing that this had resulted in the outcry and accusations which were levelled against Hongkong—including a suggestion that protective tariffs be imposed against the Colony. The Chairman added that the sponsors of these attacks overlooked Britain's very large favourable balance of trade with Hongkong. It was most gratifying that in official quarters no sympathy had been shown with these shortsighted and prejudiced outcries.

Throughout the year yarn and cloth prices declined steadily and it was only recently that prices became firmer. There was a considerable time lag in the corresponding fall in the price of raw cotton, which did not materialise until almost the end of the period under review, by which time profit margins had virtually disappeared. Due to the dock strike in the United Kingdom, certain machinery shipments were delayed and the expansion of the Mill was not completed until May of this year. The Mill now has 20,700 spindles and 165 looms.

SHANGHAI-SUMATRA RUBBER ESTATES, LTD.

The Shanghai-Sumatra Rubber Estates, Ltd. made a net profit of \$44,935.64 for the year ended October 1954. No dividend was recommended as there had been no profit remittance allowed from Sumatra for the previous year when a trading loss was incurred. The Directors stated that the company should be entitled, however, to a small profit remittance for the year under review, but it would be unwise to declare a dividend until this remittance is forthcoming. A credit balance of \$98,878.03 was carried forward to next year.

The total production for the year amounted to 475,662 pounds, of which 455,662 pounds were sold prior to the close of the year—realising \$575,889.53, leaving 20,000 pounds in stock at October 31, 1954, which has been valued at \$34,214.64. According to the Chairman, Mr. E. B. McBain, a modified re-planting programme is under consideration but as there are only a few years left to the lease, the directors must first be fully assured that an extension of the lease will be granted by the Government before authorising an expenditure that a re-planting programme would involve.

first quarter of 1955 exceeded that of any previous three-month period. March consumption was 135,287 long tons, 14 percent more than in February and 23 percent more than in March 1954. The previous peak consumption was in March 1953, when 128,610 tons were used. Natural rubber use in March rose to 58,189 tons, a gain of 14 percent over February and 8 percent over March 1954. Synthetic rubber use, at 77,098 tons, was up 14 percent from February and 37 percent from March 1954. For the first quarter of the year, new rubber consumption is estimated at 379,190 tons, compared with 302,859 tons and 463,305 tons in the corresponding periods of 1954 and 1953, respectively. Thus, consumption so far this year is running better than 4 percent ahead of 1953's record rate.

The consensus of economic experts is that the American synthetic rubber industry now in the hands of private producers is going to win an increasingly larger share of the constantly expanding world rubber market during the next five or six years. This opinion is based principally on two factors which appear to favor synthetic producers. (1) World requirements for new rubber of all kinds are rising at a rate estimated at four percent annually but the anticipated increase in natural rubber production is predicted at only one percent per year and (2) Private enterprises which took over production of synthetic in the U.S. from the government are launching research and sales programs which they expect will lead to an increased use of synthetic due to its replacing natural in more products.

Russia's entry into the Singapore rubber market was one of the leading factors which contributed to livelier trading. Other factors include the steady American consumption despite the increase in American synthetic percentage, India's increased consumption, the political unrest in Indonesia and the continued low exports from Indonesia.

Russia resumed large-scale purchases of rubber and cotton in the British Commonwealth after a long interval. The Soviet Union ordered considerable quantities of rubber for shipment in June and July to Russian ports. Her cotton purchases in the past few months have exceeded \$8,500,000 worth. Moscow has stopped the cancellation of orders placed in British industries. Russian gold and silver has again been offered for sale in European markets. Russia's huge rubber purchases worried the West more than two years ago when Moscow was buying large-scale quantities in the Far East despite the West's efforts to stop the flow of strategic goods behind the Iron Curtain. Britain under U.S. pressure then limited the sales to quantities of civilian requirements of the Soviet Union and her satellites. But Russia herself reduced her purchases which recently had dropped to a trickle. The Soviets have drawn on the purchases of their satellites and have been developing her synthetic rubber production meanwhile. The sudden resumption of rubber buying on a sizeable scale has caused renewed speculation at Moscow's motives. She may be wanting to replenish her stocks or supply Red China. Another reason for the reduction of her purchases in the past may have been shortage of sterling. Russia had been selling gold, silver and platinum between the autumn of 1953 and the spring of 1954 in very large quantities believed intended for the creation of new currency funds abroad. This coincided with the change last year of Russian economic policy which put priority on consumer goods. Orders were placed by Moscow in Britain and elsewhere in Europe for consumer goods and for machinery for the production of consumer goods to be financed from newly accumulated funds. The fall of Malenkov and the return to heavy industry emphasis once again led to a change of Soviet economic policy and a few months ago Moscow sought the cancellation of orders worth millions of sterling. Lately Moscow switched once again.

HONGKONG EXCHANGE MARKETS

For the week 22nd to 27th August

August	U.S.\$		Notes	
	T.T. High	T.T. Low	Notes High	Notes Low
22	\$584½	583¼	582¼	581
23	584½	584	581¾	581½
24	584½	583¾	581¾	581½
25	584	583½	581½	581¾
26	584½	583¾	581¾	581¾
27	584	583½	581¾	581¾

D.D. rates: High 582¼ Low 581½.

Trading totals: T.T. US\$1,810,000, Notes cash US\$496,000 forward US\$1,970,000, and D.D. US\$325,000. During the week under review, the market was very quiet, and business declined. Neither lower cross rates in New York nor better view held by the British Treasury gave any effect to fluctuations of rates. Conditions of present rate level and quietness of the market not expected to be changed in near future. In T.T. sector, banks were good buyers in taking advantage of lower cross rates in New York, while gold importers met their requirements. Offers came from the usual sources, Japan, Korea, Bangkok and the Philippines. In Notes market, shippers bought but separation between rates of T.T. and Notes remained about 2½ points. Interest for change over favoured sellers and amounted to \$2.84 per US\$1,000. Positions taken by speculators were at a daily average of US\$3½ millions. In D.D. sector, the market was very quiet.

Yen and Piastre: Cash quotations were \$1.420—1.415 per Yen 100,000 and \$875—855 per Piastre 10,000. Nothing quoted in both fictitious forward markets. Interests fixed for change over were \$5.68 per Yen 100,000 and \$11.80 per Piastre 10,000; both favouring buyers.

Far Eastern Exchange: Highest and lowest rates per foreign currency unit in HK\$: Philippines 1.96—1.905, Japan 0.0142—0.0141, Malaya 1.879—1.877, Indochina 0.0813—0.0781, Thailand 0.246—0.243. Sales: Pesos 430,000, Yen 145 millions, Malayan \$320,000, Piastre 13 millions, Baht 6½ millions. The market turned quiet with smaller business, but little change in rates.

Chinese Exchange: People's Bank Yuan notes quoted at \$1.85 per Yuan without any business done. Taiwan Bank notes quoted at \$178—175 per thousand, and remittances at \$159—157; only small business done. Taiwan Bank decided to fix a new official rate for diplomatic bodies and American forces there, at 35 Taiwan Dollar per US\$. The official rate for export bills and other US\$ proceeds is 15.55 plus 6.00 as compensation. Authorities there interpreted that this action intends to stop foreign funds going into the free market, rates of which had worked at about the same. Conditions in Taiwan remain unchanged. The help of the United States remains essential. Chinese merchants are usually inclined to view

financial actions like the one recently taken with misgivings.

Bank Notes: Highest and lowest rates per foreign currency unit in HK\$: England 15.59—15.55, Australia 12.10—12.05, New Zealand 13.71—13.66, Egypt 14.80—14.50, South Africa 15.38—15.37, India 1.1675—1.165, Pakistan 1.01—0.98, Ceylon 0.96, Burma 0.64, Malaya 1.836—1.832, Canada 5.87—5.865, Philippines 2.015—1.95, Macao 1.02—1.015, Switzerland 1.35, France 0.0155—0.01545, Indonesia 0.12, Thailand 0.237—0.234.

Gold Market

August	High .945	Low .945	Macao .99
22	\$252½	252¼	262¼ High
23	252½	252¾	
24	252½	252¾	
25	252½	252¾	Low 262¼
26	252½	252¾	
27	252½	252¾	

The opening and closing prices were \$252½ and 252½, and the highest and lowest were 252½ and 252½. The market continued quiet with business further reduced, this made the red balance figure of the Exchange higher and a remedy is not expected to be found. Interest for change over in fictitious forward favoured sellers and totalled 75 cents per 10 taels of .945 fine. Trading total was 23,100 taels or averaged 3,850 taels per day, and daily positions taken figured at 26,500 taels. Cash sales amounted to 23,620 taels, of which 5,120 taels listed and 18,500 taels arranged. Imports came from Macao and totalled 12,500 taels. A shipment of 60,000 fine ounces arrived in Macao during the week. Exports figured at 14,500 taels (8,000 taels to Indonesia, 4,500 to Singapore, 1,500 to Rangoon, and 500 to Korea). Differences paid for local and Macao .99 fine were \$12.00—11.80 and 11.80—11.70 respectively per tael of .945 fine. Cross rates worked in the Exchange were US\$37.77—37.75. 48,000 ounces were contracted at 37.75 C.I.F. Macao.

Silver Market: The market was quiet and prices were stagnant. Small quantities were acquired by exporters but not enough to effect any change of rates. Bar silver quoted \$5.94 per tael with 2,000 taels traded, \$ coins \$3.83 per coin with 2,200 coins traded, and 20 cent coins \$2.95 per 5 coins with 1,500 coins traded.

HONGKONG SHARE MARKET

The local share market was slow but steady during last week and closed with prices of popular shares slightly higher than the previous week's rates. **Monday:** The market was very quiet. Rates, however, remained steady. In the Rubber section, 36,000 shares of Rubber Trusts changed hands at \$3.05. The turnover amounted to approximately \$730,000. **Tuesday:** Sentiment appeared a shade better and prices hardened. Utilities were first to improve followed by Wheelocks, Cements,

HONGKONG AND FAR EASTERN TRADE REPORTS

Regulations & Restrictions: Hongkong products, exported to Australia, were required to be clearly marked "Made in Hongkong" and in as permanent a manner as practicable. The Australian Customs refused to pass any goods marked "Empire Made".

Freight Rates: The Australian-Eastern Shipping Conference announced that freight rates for certain commodities from HK to Australia and New Zealand would be increased by about 10% as from October 1, 1955.

Taiwan Trade: Taiwan sent here more tea, feathers, citronella oil, camphor products, live hogs, and fruits. New export floor prices were fixed for following types of green tea:— Chen Mei, US\$0.38 per pound; and Hsiao Mei, \$0.33 per pound. In the local market Taiwan made selective purchases of metals and industrial chemicals.

Japan Trade: Local dealers slowed down the booking of Japanese metals, paper, and cotton yarn due to the increase in indents and the decline of re-exports to Southeast Asia. In the local market, Japan bought large quantities of Chinese oil seeds.

Korea Trade: Washington announced that some 40 million dollars in US aid goods for Korea being produced in Japan would not be halted by the current Korean ban on trade with Japan. As a result of Seoul's new attitude towards Tokyo, local firms received more enquiries from Korea for various exports. Last week, Korea ordered 2,000 tons of wheat flour from here in addition to limited quantities of paper, metals, industrial chemicals, pharmaceuticals and other commodities. Trading was curtailed by stock shortage, and

Dairy Farms and Lands. The undertone was steady throughout the day. The turnover amounted to approximately \$1,220,000. **Wednesday:** The market ruled steady throughout the half day session and although business was on a light scale there was a good distribution of moderate advances in popular stocks. The turnover amounted to approximately \$826,000. **Thursday:** Due to the lack of demand, prices receded fractionally. Wheelocks, however, advanced to \$9.60 but closed a shade below their best level of the day on profit-taking. Hongkong Banks were also supported at higher levels. The turnover amounted to approximately \$1,700,000. **Friday:** The market was dull and featureless resulting in a poor turnover amounting to approximately \$1,070,000. H.K. Banks and Unions, however, improved towards the close under steady support whilst Wheelocks made a useful recovery. Rubbers were dull and fractionally lower in sympathy with advices from Singapore.

The Secretaries for Yangtze Finance announced that at the close of business on August 25, 1955, the shares had a statistical value of \$9.57.

increased cost—particularly in the case of paper.

Indonesia Trade: Djakarta suspended imports financed with self-provided foreign exchange. Import licences already approved are still valid. Exports to Indonesia during the week included cotton piecegoods, torch batteries, and enamelwares.

Thailand Trade: Thailand bought from here cement, metals, cotton textiles, and paints in return for HK's large purchase of Thai rice.

Burma Trade: As a result of Burma's direct trade with China and India, Bangkok bought less Chinese and Japanese products from here. Most of the orders from Burma were for Hongkong manufactures such as felt hats, cotton stockings, and canned food.

China Produce: The market was active throughout the week with strong local and overseas demand. Citronella oil improved on advanced indent and further stimulated by demand from Japan and Southeast Asia. In spite of the increased cost of Indian goods, groundnut oil declined under heavy arrival from China. Sesame registered enquiries from Japan but selling pressure depressed quotations. Demand from Europe improved prices of feathers, dried ginger, and menthol crystal. Raw silk first declined with marked-down Chinese indent, but later recovered with orders from Japan and India. Demand from various sources also included: Japan—woodoil, sunflower seed, linseed, mustard seed, and maize; Europe—linseed oil, woodoil, and egg products; India—cassia lignea, menthol crystal, galangal, and dried chilli; Australia and New Zealand—linseed oil; Southeast Asia—linseed star, cassia lignea, galangal, gypsum, and garlic. Local factories bought limited quantities of woodoil and beans.

Metals: Demand from overseas was discouraged by the increased indent cost of popular items such as mild steel round and flat bars, blackplate waste, zinc boiler plate, and mild steel plate. Hongkong manufactured mild steel round bars further improved on orders from Australia, New Zealand, Thailand, and local builders. Galvanized iron sheets attracted local orders and enquiries from China when heavy arrival from Japan depressed quotations. China was also interested in galvanized iron pipe, blackplate waste, and piano wire but trading was limited by low buying offers. Prices of other popular items were kept firm by steady local demand.

Paper: Low stock, advanced indent and steady demand from Korea stimulated woodfree printing and newsprints. Even China failed to send here any more newsprints. Trading, however, was limited by low buying offers from Korea.

Industrial Chemicals: Trading was slow at the beginning of the week but later improved with overseas demand.

The volume of business was limited and there were more enquiries than orders. Korea was interested in tanning extract, rosin, glycerine, linseed oil, ammonium bicarbonate, copper sulphate, titanium dioxide, and soda ash; and Taiwan in gum copal, montan wax, copper sulphate, lead oxide, barium chloride, and stearic acid. Low stock improved gum copal, glycerine, paraffin wax, ammonium bicarbonate, and calcium hypochlorite; while heavy arrival from China depressed zinc oxide. China enquired for potassium ferricyanide but no transaction was concluded.

Pharmaceuticals: Despite drops in indent quotations for European and Japanese products, local dealers booked very few orders due to the slow market here. Quinine powders, isoniazide powder, aspirin powder, phenacetin, saccharine crystal and lactose were favoured by Southeast Asia; neosalvarsan ampoule by Korea; and penicillin preparations, sulphonamides by local hospitals and clinics.

Cotton Yarns and Piece Goods: Trading in the local market lacked improvement but prices remained steady.

Rice: Heavy arrival from production sources depressed prices at the beginning of the week. The market, however, later improved with steady local demand. With the exception of government stocks, quotations were firm at the end of the period. It was believed, but not confirmed, that local registered importers were negotiating with China traders to import more rice from China under special arrangements—including a \$3 per picul compensation which China traders must pay to registered importers for the purchase of rice from China instead of from other sources.

Wheat Flour: Marked-up indents and strong demand from overseas and local food producers stimulated prices of various kinds of wheat flour in the local market. Korea alone bought 2,000 tons of HK products.

Sugar: Increased local consumption plus demand from Korea and Vietnam improved prices of Japanese and Taiwan sugar. Taikoo granulated also registered gains.

THE MERCANTILE BANK OF INDIA,
LTD.

The Board of Directors have recommended payment of an interim dividend of 7% less Income Tax, payable 27th September, 1955.